

**DESCRIPTION OF
THE “TAX COURT MODERNIZATION ACT”**

Scheduled for Markup
by the
SENATE COMMITTEE ON FINANCE
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Prepared by
the Staff of the
JOINT COMMITTEE ON TAXATION



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INTRODUCTION

The Senate Committee on Finance has scheduled a markup on April 2, 2003, on the “Tax Court Modernization Act.” This document,¹ prepared by the staff of the Joint Committee on Taxation, provides a description of the Chairman’s mark of the “Tax Court Modernization Act.”

¹ This document may be cited as follows: Joint Committee on Taxation, *Description of the “Tax Court Modernization Act”* (JCX-26-03), April 1, 2003.

I. TAX COURT PROCEDURE

A. Consolidate Review of Collection Due Process Cases in the United States Tax Court (the “Tax Court”)

Present Law

In general, the Internal Revenue Service (“IRS”) is required to notify taxpayers that they have a right to a fair and impartial hearing before levy may be made on any property or right to property.² Similar rules apply with respect to liens.³ The hearing is held by an impartial officer from the IRS Office of Appeals, who is required to issue a determination with respect to the issues raised by the taxpayer at the hearing. The taxpayer is entitled to appeal that determination to a court. The appeal must be brought to the Tax Court, unless the Tax Court does not have jurisdiction over the underlying tax liability. If that is the case, then the appeal must be brought in the district court of the United States.⁴ If a court determines that an appeal was not made to the correct court, the taxpayer has 30 days after such determination to file with the correct court.

The Tax Court is established under Article I of the United States Constitution⁵ and is a court of limited jurisdiction.⁶ Thus, the Tax Court may not have jurisdiction over the underlying tax liability with respect to an appeal of a due process hearing relating to a collections matter. As a practical matter, many cases involving such appeals do not involve the underlying tax liability.

Description of Proposal

The proposal modifies the jurisdiction of the Tax Court by providing that all appeals of collection due process determinations are to be made to the United States Tax Court.

Effective Date

The proposal applies to determinations made after the date of enactment.

² Sec. 6330(a).

³ Sec. 6320.

⁴ Sec. 6330(d).

⁵ Sec. 7441.

⁶ Sec. 7442.

B. Extend Authority for Special Trial Judges to Hear and Decide Certain Employment Status Cases

Present Law

In connection with the audit of any person, if there is an actual controversy involving a determination by the IRS as part of an examination that (1) one or more individuals performing services for that person are employees of that person or (2) that person is not entitled to relief under section 530 of the Revenue Act of 1978, the Tax Court has jurisdiction to determine whether the IRS is correct and the proper amount of employment tax under such determination.⁷ Any redetermination by the Tax Court has the force and effect of a decision of the Tax Court and is reviewable.

An election may be made by the taxpayer for small case procedures if the amount of the employment taxes in dispute is \$50,000 or less for each calendar quarter involved.⁸ The decision entered under the small case procedure is not reviewable in any other court and should not be cited as authority.

The chief judge of the Tax Court may assign proceedings to special trial judges. The Code enumerates certain types of proceedings that may be so assigned and may be decided by a special trial judge. In addition, the chief judge may designate any other proceeding to be heard by a special trial judge.⁹

Description of Proposal

The proposal clarifies that the chief judge of the Tax Court may assign to special trial judges any employment tax cases that are subject to the small case procedure and may authorize special trial judges to decide such small tax cases.

Effective Date

The proposal is effective for any action or proceeding in the Tax Court with respect to which a decision has not become final as of the date of enactment.

⁷ Sec. 7436.

⁸ Sec. 7436(c).

⁹ Sec. 7443A.

C. Confirmation of Tax Court Authority to Apply Equitable Recoupment

Present Law

Equitable recoupment is a common-law equitable principle that permits the defensive use of an otherwise time-barred claim to reduce or defeat an opponent's claim if both claims arise from the same transaction. U.S. District Courts and the U.S. Court of Federal Claims, the two Federal tax refund forums, may apply equitable recoupment in deciding tax refund cases.¹⁰ In *Estate of Mueller v. Commissioner*,¹¹ the Court of Appeals for the Sixth Circuit held that the Tax Court may not apply the doctrine of equitable recoupment. More recently, the Court of Appeals for the Ninth Circuit, in *Branson v. Commissioner*,¹² held that the Tax Court may apply the doctrine of equitable recoupment.

Description of Proposal

The proposal confirms that the Tax Court may apply the principle of equitable recoupment to the same extent that it may be applied in Federal civil tax cases by the U.S. District Courts or the U.S. Court of Claims. No implication is intended as to whether the Tax Court has the authority to continue to apply other equitable principles in deciding matters over which it has jurisdiction.

Effective Date

The proposal is effective for any action or proceeding in the Tax Court with respect to which a decision has not become final as of the date of enactment.

¹⁰ See *Stone v. White*, 301 U.S. 532 (1937); *Bull v. United States*, 295 U.S. 247 (1935).

¹¹ 153 F.3d 302 (6th Cir.), *cert. den.*, 525 U.S. 1140 (1999).

¹² 264 F.3d 904 (9th Cir.), *cert. den.*, 2002 U.S. LEXIS 1545 (U.S. Mar. 18, 2002).

D. Tax Court Filing Fee

Present Law

The Tax Court is authorized to impose a fee of up to \$60 for the filing of any petition for the redetermination of a deficiency or for declaratory judgments relating to the status and classification of 501(c)(3) organizations, the judicial review of final partnership administrative adjustments, and the judicial review if an administrative adjustment request of partnership items is not allowed in full.¹³ The statute does not specifically authorize the Tax Court to impose a filing fee for the filing of a petition for review of the IRS's failure to abate interest or for failure to award administrative costs and other areas of jurisdiction for which a petition may be filed. The practice of the Tax Court is to impose a \$60 filing fee in all cases commenced by petition.¹⁴

Description of Proposal

The proposal provides that the Tax Court is authorized to charge a filing fee of up to \$60 in all cases commenced by the filing of a petition.

Effective Date

The proposal is effective on the date of enactment.

¹³ Sec. 7451.

¹⁴ See Rule 20(a) of the Tax Court Rules of Practice and Procedure.

E. Employees of the Tax Court

Present Law

The Tax Court is a legislative court established by the Congress pursuant to Article I of the U.S. Constitution.¹⁵ The Tax Court is authorized to appoint employees, subject to the rules applicable to employment with the Federal Executive Branch (generally referred to as “competitive service”), as administered by the Office of Personnel Management.¹⁶

Employment with the Federal Executive Branch is governed by certain general statutory principles, such as recruitment of qualified individuals, fair and equitable treatment of employees and applicants, maintenance of high standards of employee conduct, and protection of employees against arbitrary action. The rules for employment in the Federal Executive Branch address various aspects of such employment, including: (1) procedures for the appointment of employees in the competitive service, including preferences for certain individuals (e.g., veterans); (2) compensation, benefits, and leave programs for employees; (3) appraisals of employee performance; (4) disciplinary actions; and (5) employee rights, including appeal rights. In addition, employees are protected from certain personnel practices (referred to as “prohibited personnel practices”), such as discrimination on the basis of race, color, religion, age, sex, national origin, political affiliation, marital status, or handicapping condition.

Description of Proposal

The proposal extends to the Tax Court authority to establish its own personnel system. Similar authority has previously been provided to Article III courts. Under the proposal, various rules and procedures that apply to employment with the Federal Executive Branch do not apply to employment with the Tax Court, as described below. However, any personnel management system adopted by the Tax Court must: (1) include the general principles that govern employment with the Federal Executive Branch; (2) prohibit personnel practices that are prohibited in the Federal Executive Branch; and (3) in the case of an individual eligible for preference for employment in the Federal Executive Branch, provide preference for that individual in a manner and to an extent consistent with preference in the Federal Executive Branch.

The proposal allows the Tax Court to appoint a clerk without regard to the Federal Executive Branch rules regarding appointments in the competitive service. Under the proposal, the clerk serves at the pleasure of the Tax Court.

The proposal allows the clerk of the Tax Court to appoint deputies and other employees without regard to the Federal Executive Branch rules regarding appointments in the competitive service. Under the proposal, these deputies and employees are subject to removal by the clerk.

¹⁵ Sec. 7441.

¹⁶ Sec. 7471.

The proposal allows judges and special trial judges of the Tax Court to appoint law clerks and secretaries, in such numbers as the Tax Court may approve, without regard to the Federal Executive Branch rules regarding appointments in the competitive service. Under the proposal, a law clerk or secretary serves at the pleasure of the appointing judge.

The proposal exempts law clerks from the sick leave and annual leave provisions applicable to employees of the Federal Executive Branch. Any unused sick or annual leave to the credit of a law clerk as of the effective date of the proposal remains credited to the individual and is available to the individual upon separation from the Federal Government.

The proposal allows the Tax Court to fix and adjust the compensation of the clerk and other employees without regard to the Federal Executive Branch rules regarding employee classifications and pay rates. To the maximum extent feasible, Tax Court employees are to be compensated at rates consistent with those of employees holding comparable positions in the Federal Judicial Branch. The Tax Court may also establish programs for employee evaluations, premium pay, and resolution of employee grievances.

The proposal requires the Tax Court to prohibit discrimination on the basis of race, color, religion, age, sex, national origin, political affiliation, marital status, or handicapping condition. The Tax Court is also required to promulgate regulations providing procedures for resolving complaints of discrimination by employees and applicants for employment.

In the case of an individual who is an employee of the Tax Court on the day before the effective date of the proposal, the proposal preserves certain rights that the employee is entitled to as of that day. The proposal preserves the right to: (1) appeal a reduction in grade or removal; (2) appeal an adverse action; (3) appeal a prohibited personnel practice; (4) make an allegation of a prohibited personnel practice; or (5) file an employment discrimination appeal. These rights are preserved for as long as the individual remains an employee of the Tax Court.

Under the proposal, a Tax Court employee who completes at least one year of continuous service under a nontemporary appointment with the Tax Court acquires competitive service status for appointment to any position in the Federal Executive Branch competitive service for which the employee possesses the required qualifications.

The proposal also allows the Tax Court to procure the services of experts and consultants in accordance with Federal Executive Branch rules.

Effective Date

The proposal is effective on the date that the Tax Court adopts a personnel management system after date of enactment of the proposal.

F. Use of Practitioner Fee

Present Law

The Tax Court is authorized to impose on practitioners admitted to practice before the Tax Court a fee of up to \$30 per year.¹⁷ These fees are to be used to employ independent counsel to pursue disciplinary matters.

Description of Proposal

The proposal provides that Tax Court fees imposed on practitioners also are available to provide services to pro se taxpayers.

Effective Date

The proposal is effective on the date of enactment.

¹⁷ Sec. 7475.

II. TAX COURT PENSION AND COMPENSATION

A. Judges of the Tax Court

Present Law

The Tax Court is a legislative court established by the Congress pursuant to Article I of the U.S. Constitution.¹⁸ The salary of a Tax Court judge is the same salary as received by a United States District Court judge.¹⁹ Present law also provides Tax Court judges with some benefits that correspond to benefits provided to United States District Court judges, including specific retirement and survivor benefit programs for Tax Court judges.²⁰

Under the retirement program, a Tax Court judge may elect to receive retirement pay from the Tax Court in lieu of benefits under another Federal retirement program. A Tax Court judge may also elect to participate in a plan providing annuity benefits for the judge's surviving spouse and dependent children (the "survivors' annuity plan"). Generally, benefits under the survivors' annuity plan are payable only if the judge has performed at least five years of service. Cost-of-living increases in benefits under the survivors' annuity plan are generally based on increases in pay for active judges.

Tax Court judges participate in the Federal Employees Group Life Insurance program (the "FEGLI" program). Retired Tax Court judges are eligible to participate in the FEGLI program as the result of an administrative determination of their eligibility, rather than a specific statutory provision.

Tax Court judges are not covered by the leave system for Federal Executive Branch employees. As a result, an individual who works in the Federal Executive Branch before being appointed to the Tax Court does not continue to accrue annual leave under the same leave program and may not use leave accrued prior to his or her appointment to the Tax Court.

Tax Court judges are not eligible to participate in the Thrift Savings Plan.

Tax Court judges are subject to limitations on outside earned income under the Ethics in Government Act of 1978.

¹⁸ Sec. 7441.

¹⁹ Sec. 7443(c).

²⁰ Secs. 7447 and 7448.

Description of Proposal

In general

The proposal makes various changes to the compensation and benefits rules that apply to Tax Court judges to eliminate disparities between the treatment of Tax Court judges and the treatment of other Federal judges.

Survivor annuities for assassinated judges

Under the proposal, benefits under the survivors' annuity plan are payable if a Tax Court judge is assassinated before the judge has performed five years of service.

Cost-of-living adjustments for survivor annuities

The proposal provides that cost-of-living increases in benefits under the survivors' annuity plan are generally based on cost-of-living increases in benefits paid under the Civil Service Retirement System.

FEGLI program

Under the proposal, a judge or retired judge of the Tax Court is deemed to be an employee continuing in active employment for purposes of participation in the FEGLI program. In addition, in the case of a Tax Court judge age 65 or over, the Tax Court is authorized to pay on behalf of the judge any increase in employee premiums under the FEGLI program that occur after April 24, 1999,²¹ including expenses generated by such payment, as authorized by the chief judge of the Tax Court in a manner consistent with payments authorized by the Judicial Conference of the United States (i.e., the body with policy-making authority over the administration of the courts of the Federal Judicial Branch).

Accrued annual leave

Under the proposal, in the case of a judge who is employed by the Federal Executive Branch before appointment to the Tax Court, the judge is entitled to receive a lump-sum payment for the balance of his or her accrued annual leave on appointment to the Tax Court.

Thrift Savings Plan participation

Under the proposal, Tax Court judges are permitted to participate in the Thrift Savings Plan. A Tax Court judge is not eligible for agency contributions to the Thrift Savings Plan.

²¹ This date relates to changes in the FEGLI program, including changes to premium rates to reflect employees' ages.

Exemption for teaching compensation from outside earned income limitations

Under the proposal, compensation earned by a retired Tax Court judge for teaching is not treated as outside earned income for purposes of limitations under the Ethics in Government Act of 1978.

Effective Date

The proposals are effective on the date of enactment, except that: (1) the proposal relating to cost-of-living increases in benefits under the survivors' annuity plan applies with respect to increases in Civil Service Retirement benefits taking effect after the date of enactment; (2) the proposal relating to payment of accrued annual leave applies to any Tax Court judge with an outstanding leave balance as of the date of enactment and to any individual appointed to serve as a Tax Court judge after such date; (3) the proposal relating to participation by Tax Court judges in the Thrift Savings Plan applies as of the next open season; and (4) the proposal relating to teaching compensation of a retired Tax Court judge applies to any individual serving as a retired Tax Court judge on or after the date of enactment.

B. Special Trial Judges of the Tax Court

Present Law

The chief judge of the Tax Court may appoint special trial judges to handle certain cases.²² Special trial judges serve for an indefinite term. Special trial judges receive pay at a rate of 90 percent of the pay of a Tax Court judge and are generally covered by the benefit programs that apply to Federal Executive Branch employees.

Description of Proposal

Magistrate judges of the Tax Court

The proposal is generally designed to eliminate disparities between the treatment of special trial judges of the Tax Court and magistrate judges in the Article III courts.

Under the proposal, the position of special trial judge of the Tax Court is renamed as magistrate judge of the Tax Court. Magistrate judges are appointed (or reappointed) to serve for eight-year terms and are subject to removal in limited circumstances.

Under the proposal, magistrate judges receive pay at a rate of 92 percent of the pay of a Tax Court judge.

The proposal exempts magistrate judges from the leave program that applies to employees of the Federal Executive Branch and provides rules for individuals who are subject to such leave program before becoming exempt.

Survivors' annuity plan

Under the proposal, magistrate judges of the Tax Court are eligible to participate in the survivors' annuity plan for Tax Court judges.

Retirement annuity program for magistrate judges

The proposal establishes a new retirement annuity program for magistrate judges, under which a magistrate judge may elect to receive a retirement annuity from the Tax Court in lieu of benefits under another Federal retirement program. The proposal establishes the "Tax Court Judicial Officers' Retirement Fund" to hold contributions and investments to finance the new retirement annuity program for magistrate judges. The proposal also provides transition rules for sitting special trial judges on the date of enactment of the proposal.

Under the proposal, a magistrate judge who elects to participate in the retirement annuity program is also permitted to participate in the Thrift Savings Plan. Such a magistrate judge is not eligible for agency contributions to the Thrift Savings Plan.

²² Sec. 7443A.

Recall of retired magistrate judges

The proposal provides rules under which a retired magistrate judge may be recalled to perform services for a limited period.

Effective Date

The proposals are effective on date of enactment.