

The Honorable Sander Levin
Chairman
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for your letter of November 9, 2010, outlining your efforts to enact AMT legislation that would allow the personal credits against AMT, and set the exemption amounts for 2010 to be \$47,450 for individuals, and \$72,450 for married taxpayers filing jointly. Based on your letter, which urged me to take all necessary steps necessary to plan for such changes, I have directed our technology team to program IRS computers with the assumption that there will be an AMT "patch" as outlined in your response. As a result, if the AMT is patched by the end of this year, the 21 million taxpayers who will no longer be subject to the AMT will be able to file their tax returns in a timely manner. Of course, if legislation has not passed by the end of this year, our computers will have been programmed incorrectly, and we will need to delay filing for these individuals as we re-program our computers to the actual law in effect.

At the same time, we are confronting the challenge of administering a number of common individual income tax incentives that have already expired (otherwise known as "individual extenders"). Examples include the deduction that educators claim for their expenses, the additional deduction for real property taxes for individuals who claim the standard deduction, deductions for tuition fees and expenses, and deductions for state and local sales taxes. At this time, we have programmed our computers in accordance with current law.

While I know you and your colleagues have a difficult challenge to enact legislation this year, I want to stress that it would be extremely detrimental to the entire tax filing season and to tens of millions of taxpayers if tax law changes affecting 2010 are deferred and then retroactively enacted in 2011.

Specifically, it would be an unprecedented and daunting operational challenge to open the tax filing season under one set of tax laws with respect to AMT and extenders, begin accepting tax returns, and then have the law change. Re-programming systems and publishing new forms and instructions in the middle of filing season would introduce significant operation and compliance risks.

If this re-programming were undertaken, the IRS would have to delay processing refunds for some or all of the 21 million people affected by AMT legislation and/or the over 25 million people impacted by extenders legislation. The IRS would likely be faced with millions of taxpayers who filed and paid additional tax based on a law that later changed. These impacted taxpayers would then need to file amended returns, which could take months to process and send refunds. The overall strain on IRS service operations would affect not only AMT taxpayers and those who benefit from extenders, but would also spill over into service disruptions and/or delayed refunds for tens of millions of other taxpayers.

I hope this information about the operational challenges of AMT and individual extenders is helpful. These tax provisions can be distinguished from other pending tax legislation because they are so critical to ensuring that taxpayers experience a smooth tax filing season starting in January, and because it would be extremely detrimental to the tax system if changes affecting tax year 2010 were made after the end of this year.

I appreciate your continued attention to these critically important matters. I am also writing to Mr. Camp and your counterparts on the Senate Committee on Finance. If you have any questions, please contact me or have your staff call Floyd Williams at (202) 622-3720.

Sincerely,

Douglas H. Shulman