Tax News

Top court speaks. The Affordable Care Act (aka Obamacare) lives for another day. In a new decision, the U.S. Supreme Court preserved the use of premium tax credits in states where eligible taxpayers buy health insurance through the federal exchange. (King v. Burwell, S. Ct. No. 14-114, 6/25/15) Without this decision, Obamacare might have collapsed, yet the law will still likely face future challenges.

Ready, willing, ABLE. The IRS has issued new proposed regulations defining key terms in the Achieving a Better Life Experience Act (ABLE). (Reg-102837-15, 6/19/15) The law authorizes use of tax-free accounts set up for individuals who were disabled before age 26. Also, the IRS will create two new forms that will be used for reporting ABLE account information.

Thwarting ID theft. A joint summit will help improve procedures for identifying fraudulent tax returns. In collaboration with major tax preparation firms, tax software companies and state tax authorities, the IRS will initiate new procedures in the 2016 tax filing season. The news follows a report by the Treasury Inspector General for Tax Administration (TIGTA) that the IRS is doing a better job on ID theft. (TIGTA Ref. No. 015-40-026, 4/24/15)

Turn your home into a tax shelter

The home sale gain exclusion for a principal residence is one of the biggest tax benefits on the books. But you can’t claim any tax breaks for a personal home if you sell it at a loss, whether or not it’s your principal residence.

Strategy: Convert your home into an investment property. In other words, hold it out for rent to tenants.

Not only can you offset rental income with rental expenses, you may be able to claim a tax loss when you eventually sell the home. However, as evidenced by a new Tax Court decision, the intent to rent out the place must be legit. (Redisch, TC Memo 2015-95)

Here’s the whole story: When you convert a personal residence into a rental property and then sell it, your basis for tax-loss purposes is the lesser of the home’s initial purchase price (plus any improvements) or the market value on the date of the conversion. For instance, if you bought the home for $500,000, convert it when it is worth $475,000 and sell it when it is worth $425,000, your deductible loss is $50,000 ($425,000 sales proceeds minus $475,000 basis for tax-loss purposes).

You must be able to show that you’re serious about renting out the place. Traditionally, the courts have relied on the following factors:

- The length of time the home was occupied by the taxpayer as a personal residence before it was placed on the market for sale
- Whether the taxpayer permanently abandoned all further personal use of the home
- The character of the property (e.g., if it is a vacation home)

Continued on page 2

Take your spouse away on business

Suppose your spouse often helps out at work, but he or she isn’t on the payroll. Now you’re about to take an important business trip, and you need an assistant on call.

Strategy: Make it official by hiring your spouse. As a result, you can deduct all of your spouse’s qualified business travel expenses, just like your own.

Furthermore, even if your spouse isn’t an official employee, you may be eligible for some tax breaks when he or she accompanies you on a business trip (see box on page 2).

Here’s the whole story: Generally, you can deduct the cost of traveling away from home as long as the primary purpose of the trip is business-related. This includes costs such as airfare, local transportation (e.g., cab fares), lodging and 50% of the cost of business meals and entertainment.

For example, if you and your spouse treat four clients and their spouses (or significant others) to a dinner after a substantial
**Turn home into tax shelter**

(Cont. from page 1)

- Legitimate offers to rent
- Legitimate offers to sell

No single factor by itself is conclusive. A court will look at all the facts and circumstances to arrive at its determination.

**Facts of the case:** In 2004, a couple bought an oceanfront condo in Florida for $875,000. They used the property personally but stopped going there in 2006. At that time, they decided to rent out the place and listed it with a broker specializing in oceanfront properties. The couple claimed that the broker showed their home as a model and advised prospects that it was available for rent.

The taxpayers also turned one of the bedrooms into a child’s room to make it more appealing to grandparents who were looking for rentals. The condo was featured in a portfolio of rental properties in the realty company's office. But the couple said they received only two inquiries that didn’t pan out.

After switching to a different broker in 2009, the couple listed the property for sale, but then took it off the market to determine if it should be priced more competitively. Finally, they sold the property in 2010 for $725,000, or a $150,000 loss from their initial investment. Then they deducted the loss on their 2010 return.

Based on these “facts and circumstances,” the Tax Court ruled that the condo was never actually converted to a rental property. **Reason:** The couple only made minimal attempts at renting out the property and had no corroborating evidence of a rental agreement. Because there didn’t appear to be a bona fide effort to rent the condo, the Tax Court denied the loss (because losses on the sale of personal residences are nondeductible).

**Tip:** In case of an IRS challenge, keep documentation supporting a conversion of a personal property to a rental unit.

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**Take your spouse on business trip**

(Cont. from page 1)

business discussion and the tab comes to $1,000, you can deduct $500. The cost attributable to the spouses is deductible whether or not they participated in the business meeting beforehand.

If you go away with your spouse on business in the summer, remember that you can only deduct travel expenses if the primary purpose of the trip is related to business. The number of business days versus personal days is critical. For instance, if you spend five weekdays on business and the weekend on personal pursuits, you should be in the clear. But you can only deduct costs attributable to the business activities.

Note that you can benefit in various ways by hiring your spouse as a company employee. Typically, your spouse will qualify for tax-favored employee benefits like retirement plan contributions, health insurance and various other perks.

Of course, the wages paid to him or her are taxable, but at least your company can deduct those amounts.

Can you hire your spouse just for the one-week business trip? Technically, you can, but the IRS is likely to be suspicious of this move.

**Tip:** If your company reimburses you for business travel expenses, the reimbursements are generally tax free.

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**Get tax discount on business travel**

Normally, you can’t deduct travel expenses of a spouse who tags along on a business trip, unless he or she is a company employee. But you can still qualify for some tax benefits.

**Strategy:** Deduct what it would have cost you to travel alone. In other words, you can pocket the discount portion of joint rates at hotels and other accommodations.

For example, it might cost the two of you $300 a night to stay at a hotel when the rate for a single room is $200. If you’re away on business for a week, you can deduct $1,400 (seven days times $200) instead of $1,050 (half of the total cost of $2,100). This rule applies to other services.

Furthermore, if you travel to and from the business destination by car, you can deduct the full cost attributable to the business travel (including any tolls and parking fees), since that’s what it would have cost you to travel alone. This includes a portion of the car’s cost that is depreciable (subject to the usual rules in this area). **Caveat:** If you use the standard mileage rate (57.5 cents per business mile in 2015) instead of deducting actual expenses, the depreciation component is built into the rate.

**Tip:** Keep a brochure or printout of hotel rates as proof of the expenses.
If you help an elderly parent or in-law make ends meet, you probably still won’t be able to claim a dependency exemption for the relative because of the “gross income limit.” But there may be a way to get around the tax rules if the relative watches your young children while you and your spouse work.

Strategy: Designate your support as payment for child care. In other words, instead of paying the bills, give the money directly to the parent or in-law.

Will this ensure that you qualify for a dependency exemption? Not at all. But you may be entitled to a dependent care tax credit for the payments for watching your kids.

Here’s the whole story: To qualify for a dependency exemption for a relative who is not your child, you have to provide more than half of the relative’s support during the year, and he or she can’t have gross taxable income exceeding the personal exemption amount. The personal exemption amount for 2015 is $4,000 (up from $3,950 in 2014).

This is often a tax problem when you help support an older family member. That’s because it’s common for the relative to have more than $4,000 in investment income, retirement plan distributions and income from other taxable sources.

But this doesn’t preclude a claim for the child care tax credit if the elderly relative watches your children so you and your spouse can be gainfully employed.

Generally, the credit for middle-to-upper income families is equal to 20% of the first $3,000 of qualified expenses for a child under age 13 and 20% of the first $6,000 of qualified expenses for two or more qualified children. Thus, if you have three children under age 13 and pay someone to watch them, the maximum credit you can claim is generally $1,200 (20% of $6,000).

Remember that a tax credit is more valuable than a deduction and reduces your tax bill on a dollar-for-dollar basis. In contrast, a $4,000 dependency exemption is effectively worth only $1,120 to a taxpayer in the 28% bracket.

Changing the payment method

Say Mom lives nearby and watches your two children, ages 12 and 10, during the summer and after school. Both you and your spouse have full-time jobs. Because Mom is scraping by on a fixed income of $5,000, plus Social Security benefits, you pay her landlord $500 a month in rent, for a total of $6,000 for the year. (Social Security benefits count toward the half-support test but not the gross income limit.)

On these facts, you can’t claim Mom as your dependent because she has more than $4,000 in gross income.

Normally, Mom wouldn’t dream of taking a penny for watching your kids. However, if you pay $500 to her monthly for babysitting and have her write the check to the landlord, the economic result is the same. The tax result? Now you’re in line for a $1,200 child care tax credit (20% × $6,000).

Tip: The dependent care credit can’t be claimed for payments to someone who is your dependent (e.g., an older sibling of under-age-13 children).
**Cash in early on tax-free Roth IRA**

If you need cash for a personal expense such as a child’s wedding, you may have more tax-smart options at your disposal than you think.

**Strategy:** Consider withdrawing funds from a Roth IRA. Despite a common perception, non-qualified distributions from a Roth for personal expenses like weddings aren’t fully taxable.

In fact, depending on your situation, non-qualified distributions might even be completely tax free!

But remember that Roth IRAs are meant for retirement saving. Use this technique judiciously.

**Here’s the whole story:** Qualified Roth IRA distributions are 100% exempt from federal income tax (and usually state income tax, too). For this purpose, a qualified distribution is one from a Roth in existence at least five years that is made after reaching age 59½, due to death or disability or used to pay first-time homebuyer expenses (up to a lifetime limit of $10,000 for the latter). All other distributions are nonqualified, but the tax results from receiving nonqualified distributions are determined under special “ordering rules.”

**How it works:** Funds are treated as coming from Roth IRA assets in the following order.

1. Regular annual Roth contributions. These can be taken out tax free even if they are non-qualified.
2. Contributions from converting taxable traditional IRA balances into Roth status (i.e., “taxable conversion contributions”). These can be taken out tax free even if they are nonqualified, but a 10% penalty tax generally applies to withdrawals within five years of the conversion, unless you’re age 59½ or older.
3. Contributions from converting nontaxable traditional IRA balances into Roth IRA status (i.e., “nontaxable conversion contributions”). These can be taken out tax free even if they are nonqualified.
4. Earnings that accumulated within the Roth IRA. These amounts are taxable when withdrawn unless they met the definition of qualified distributions. In addition, a 10% penalty tax may apply to withdrawals before age 59½.

In other words, if you don’t reach the point where you’re withdrawing Roth IRA earnings, you generally will have little or no income tax to pay on your withdrawals. For example, if you need another $20,000 for a wedding and you’ve contributed $25,000 to your Roth over the years, the tax on the $20,000 withdrawal is zero.

**Investments**

**Salvage tax loss for worthless stock**

Are you holding shares of stock that are now worthless? If so, you can realize some tax relief on your 2015 return.

**Strategy:** Prepare to claim a capital loss for the worthless stock. The loss can offset capital gains in 2015 plus up to $3,000 of highly taxed ordinary income.

However, you must be able to show the stock is truly “worthless.” Timing can be critical.

**Here’s the whole story:** To claim a deduction for worthless stock, you must be able to show that the stock had value in the previous year and that an identifiable event caused its value to drop to zero in the current year. A steep decline in the value of the stock, by itself, isn’t sufficient. The stock must have no recognizable value.

A worthless stock is treated as if it had been sold on the last day of the tax year that it became worthless. Thus, the resulting loss is either short term or long term for stock held longer than one year.

You can claim the loss for worthless stock for the year it becomes worthless even if you sell it for a nominal amount the following year. If you can’t determine that the stock has become worthless until a subsequent year, file an amended return for the year it actually became worthless. Because this determination is often difficult to make, claim the loss in the earliest year it’s reasonable.

If you currently own stock that is on the verge of becoming worthless, a better policy might be to sell it now to trigger a loss without having to prove that the stock has become worthless. **Caveat:** Don’t sell the stock to a “related party” like a child or a corporation in which you own stock. If you do, the loss will be disallowed.

Finally, keep all relevant records in case the IRS ever challenges your loss deduction.

**Tip:** The usual three-year period for filing an amended return is extended to seven years for worthless stock losses.
Learn tricky rules on business education

It’s almost time for the kids to go back to school. How about you?

**Strategy:** Take some classes related to your business. If you’re merely sharpening your current skills, you can deduct the cost of the tuition, plus certain other expenses.

However, if the coursework is a stepping stone to a new degree or another job or occupation, you usually aren’t allowed to deduct the cost.

Generally, you can deduct the cost of education as a business expense if (1) it is required by your employer or by law to keep your current job or (2) it maintains or improves skills needed in your present work. Conversely, you can’t deduct any expenses—even if you otherwise qualify—if the education is required to meet the pre-existing minimum educational requirements of your current job or business or it qualifies you for a new job, occupation or business.

Granted, this is sometimes a fine line to walk, because the difference between “maintaining or improving skills” and “qualifying for a new job, occupation or business” might be difficult to distinguish. Not surprisingly, the issue often ends up in the courts. In one fairly recent decision, the Tax Court approved deductions for a registered nurse who was taking courses to attain a master’s degree in business administration. (*Singleton-Clarke, TC Summary Opinion 2009-182*)

When allowed, the write-off for job or business-related expenses covers costs like tuition, mandatory fees, books, laboratory fees, equipment and transportation between work and school. For instance, if you go to class directly after work, the cost of your travel is deductible. But you can’t deduct travel costs if you stop at home for a snack or to change your clothes.

If you qualify and you’re a company employee, the business education expenses must be deducted as miscellaneous expenses, subject to the usual deduction threshold of 2% of adjusted gross income (AGI). Even better: If your company pays for the business education, reimbursements are generally deductible in full by the company and tax free to you.

**Tip:** Alternatively, your company can use an educational assistance plan providing up to $5,250 in annual tax-free education benefits a year.

Clean up taxwise on mold removal

We’re often asked about tax consequences surrounding environmental cleanup costs. The answer is usually pretty much the same: Cleanup costs must be capitalized, so there’s no current write-off for the employer.

**Strategy:** Take a different approach for removing mold from a business building. The IRS differentiated a situation involving mold removal in a private letter ruling in 2006.

The letter ruling is noteworthy because it established a unique rationale for this environmental hazard. (*IRS PLR 200607003*)

As you’re probably well aware, your business can deduct all the “ordinary and necessary” expenses it incurs and pays during the year. This includes expenses for regular repairs that don’t prolong the property’s useful life or cause it to significantly appreciate in value. (You can’t deduct expenses for permanent improvements.)

**Facts of the ruling:** One wing of a nursing home became mold-ridden due to excessive moisture. The owner removed the mold by tearing out most of the drywall and fixtures and replacing the moldy drywall with new drywall of similar quality. The owner then painted the drywall and reinstalled the old fixtures.

Based on these facts, the IRS determined that the owner could deduct the mold remediation expenses as ordinary and necessary business expenses. It cited four reasons:

1. The building use stayed the same.
2. No structural alterations were made.
3. The mold problem didn’t appear until after the owner acquired the building.
4. The work didn’t prolong the building’s useful life or cause it to appreciate in value.

The situation differed from prior rulings involving asbestos remediation. In those rulings, the IRS separated encapsulation expenses from removal costs. It said encapsulation costs can be deducted currently, while removal costs must be capitalized. But encapsulation is not an option for mold; removal is the only solution.
New regs clarify rules for estate exemption portability provision

The “portability” provision in the federal estate tax provides greater flexibility in estate tax planning for married couples.

Alert: The IRS has issued new final regulations pertaining to the portability provision. (T.D. 9725, 6/12/15) Generally, the new regs follow previous proposed and temporary regulations but with certain modifications.

The final regulations are effective as of June 12, 2015, and apply to estates of decedents dying on or after that date.

Here’s the whole story: Under the American Taxpayer Relief Act of 2012 (ATRA), the unified federal estate and gift tax exemption was permanently locked in at $5 million, subject to annual inflation indexing, and the estate and gift tax rate was set at a flat 40%. (The estate tax exemption for decedents dying in 2015 is $5.43 million.) ATRA also preserved the portability provision allowing a surviving spouse to take over any unused exemption of the deceased spouse. This amount is called the “deceased spousal unused exemption” (DSUE) amount.

Example: Husband and Wife each own $2 million individually and $3 million jointly with rights of survivorship, for a total of $7 million in assets. Under their wills, all assets pass first to the surviving spouse and then to the couple’s children.

If Husband dies in 2015, the $2 million in assets he owns individually is covered by the unlimited marital deduction. Therefore, his entire $5.43 million unified federal estate and gift tax exemption is unused. When Wife dies, her estate can use the $5.43 million DSUE amount taken over from Husband’s estate, plus her own exemption for the year in which she dies, to shelter her $7 million estate from the federal estate tax, with plenty of room to spare.

Contrast this outcome with the possible results without the portability provision. If Wife were to die later in 2015 with $7 million of assets in her estate, the 40% federal estate tax rate would apply to $1.57 million ($7 million minus $5.43 million) for a whopping federal estate tax bill of $628,000!

Here are some of the key points outlined in the new final regulations:

• Responding to public comments, the IRS clarifies that an estate where the gross value falls below the threshold amount for the requirement to file an estate tax return can potentially qualify for an extension of time to elect portability. In other words, relief may be available for an estate that is not otherwise required to file an estate tax return.

• Although the DSUE amount is an essential requirement of a complete and properly prepared estate tax return with the portability election, the IRS acknowledges that there are times when subsequent adjustments to the return might modify the amount of the unused exclusion of that decedent (e.g., there are pending claims against the estate). The final regs clarify this is an allowable exception to the “completion” rule.

• The temporary regs generally prohibited a noncitizen, nonresident surviving spouse or the estate of a surviving spouse from taking into account the DSUE amount of any deceased spouse except to the extent allowed under a U.S. treaty obligation. However, in response to a comment, the final regs include a rule allowing a surviving spouse who becomes a U.S. citizen after the death of the deceased spouse to take into account the DSUE amount.

Tip: This is a complex area of the law, so rely on a tax pro.
Sidestep tax on personal holding companies

A tax that is often thought to be a remnant of days long gone by can still come back to haunt business owners.

Strategy: Don’t trigger the personal holding company tax. This additional tax can be assessed against a closely held company if it receives excess investment income.

However, with some careful tax planning, you may be able to avoid any dire tax consequences.

Here’s the whole story: A personal holding company (PHC) is a C corporation in which more than 50% of the value of its outstanding stock is owned—either directly or indirectly—by no more than five individuals and at least 60% of its adjusted ordinary gross income comes from passive sources. The PHC tax is imposed on the undistributed income of these C corporations. In other words, the tax targets closely held corporations deriving substantial investment income such as royalties, interest, dividends and rents.

Currently, a PHC must pay a corporate tax equal to 20% of the undistributed PHC income. From 2003 to 2012, the tax rate was 15%, but the American Taxpayer Relief Act of 2012 (ATRA) raised it by 5%.

The PHC tax can strike when least expected.

New ruling: XYZ Corp., a closely held company, owned land surrounding a commercial building of a related corporation. XYZ agreed to place building restrictions on the land to provide a “buffer zone.” But the IRS ruled that payments received by XYZ for this privilege should be treated as rents, pushing it over the 60% passive income threshold. (IRS Chief Counsel Memorandum, No. 20152012F, 5/22/15)

To avoid the PHC tax, you might increase the number of shareholders. But be aware that stock gifted to other family members will be considered to be owned indirectly by you.

Alternatively, you may be able to increase adjusted ordinary income or decrease PHC income. A few ideas are to:

- Accelerate billing for business services or sales near year-end
- Decrease cost of goods sold by deferral of purchases or other expenses at year-end
- Invest in business activities that result in additional gross receipts that are not PHC income
- Cash in securities and reinvest the funds in stocks that have growth potential but do not regularly pay dividends
- Pay out dividends to shareholders
- Limit your passive investments

Tip: Certain businesses, such as banks and life insurance companies, are specifically exempted from the PHC tax.

Lessons from the Courts: Make noise about legal fees

As a general rule, legal fees incurred by a business are deductible when they arise in the context of a business activity. This is based on the origin and character of the claim.

New decision: Ms. McMillan operated an information technology (IT) business as a self-employed taxpayer. (McMillan also ran a self-employed equine business, which was considered by the Tax Court on another issue.) She received $65,000 of revenue from the IT business and had net income of $15,000 in 2009.

McMillan resided in a condominium unit where she maintained a home office. She deducted 50% of various condominium costs as home office expenses.

In 2005, McMillan sued the condo association and several of her neighbors, seeking injunctive and declaratory relief. The lawsuit was based on damages for claims of (1) dogs running wild, barking and defecating around the property; (2) construction defects related to the presence of mold in her bathroom; and (3) construction defects causing noise problems. She was involved in a separate legal action in 2009 concerning misdemeanor criminal charges in connection with her attempts to gather evidence for the litigation.

On her Schedule C for 2009, McMillan deducted 50% of her legal expenses of $26,000, comprised of $5,000 paid to one attorney for legal representation in the separate action and $21,000 paid to another attorney for both the condo litigation and the separate action.

The IRS challenged the deduction for the legal fees. It said that they were personal expenses unrelated to her IT business.

Tax verdict: In a case where the IRS had the burden of proof, the Tax Court said that the dispute giving rise to the legal expenses arose mainly due to McMillan’s claims of noise and other factors interfering with her use and enjoyment of her property. Because she reported 50% business use of the condo and the IRS failed to prove a lesser business percentage or that the noise and other factors didn’t affect her business use of the unit, the deduction was allowed. (McMillan, TC Memo 2015-109)

Tip: There was no mention of the fact that some fees involved criminal charges.
Mail Call

No RMD for deceased IRA owner


A No. Under the rules for required minimum distributions (RMDs), you must begin taking an annual payout after attaining age 70½. For the first year only, you can postpone the RMD until April 1 of the following year. This is your “required beginning date” (RBD). If someone dies before their RBD, no distribution is required for the year of death. However, if you die after the RBD and didn’t take the entire RMD for the year of death, your beneficiaries must take the balance of the RMD before the end of that year.

Tip: The RMD for the year of death is calculated as if you had lived for the entire year.

What do you want—blood?

Q Can you deduct the value of blood donated to a hospital as a medical expense or charitable donation? L.S., Bridgewater, N.J.

A No. The donation of blood isn’t a qualified medical expense because it isn’t incurred for treatment of your own medical illness or condition. In any case, because you’re essentially donating a service instead of giving away tangible property, no charitable deduction is allowed. This is the same reasoning that prohibits deductions for various charitable services. However, like other charitable volunteers, you can deduct unreimbursed out-of-pocket expenses, such as transportation to the hospital.

Tip: Some states have authorized tax benefits for donating blood.

Business estate tax break is long gone

Q I told my heirs that my closely held business interest is 100% exempt from federal estate tax. Am I right? G.R.B., Houston

A Sorry, no. Previously, if your closely held business interest comprised at least 50% of your estate, among certain other requirements, the estate could deduct the amount from the taxable estate, up to an annual limit. This tax break, which was known as the “qualified family-owned business interest” (QFOBI) deduction, was repealed back in 2004. Nevertheless, recent proposals in Congress would reinstate a version of the QFOBI deduction for certain businesses and farms.

Tip: Other proposed legislation would completely repeal the federal estate tax.

Buy back stock after gift to charity

Q I donated appreciated stock to charity, and I want to reacquire more shares of the same stock. Does this violate the wash sale rule? J.D.T., Yardley, Pa.

A No. The wash sale rule prohibits you from deducting a loss on the disposition of securities if you reacquire substantial identical securities within 30 days. But this prohibition doesn’t apply in this situation.

Accordingly, you can claim a charitable deduction based on the stock’s fair market value if you’ve held it longer than one year. When you reacquire the stock, your basis for the new shares will equal your cost to acquire them.

Tip: If you then sell the stock at a gain, the gain will be less than it would have been for the original shares.

Submit Mail Call questions to: SBTSeditor@BusinessManagementDaily.com.

The Tax Ticker

Confess your tax sins. Following the lead of other jurisdictions that have signed intergovernmental pacts with the United States under FATCA (the Foreign Account Tax Compliance Act), the Holy See of the Catholic Church recently agreed to report banking information about account holders in the Vatican Bank. The bank itself has been plagued by charges of corruption in recent years and Pope Francis has cited its cleanup as one of his top priorities. To improve compliance with the federal tax law, FATCA requires foreign financial institutions to provide information about U.S. taxpayers directly to the IRS. Note: FATCA doesn’t relieve taxpayers of their obligations to file an FBAR (Report of Foreign Bank and Financial Accounts) for each foreign account exceeding $10,000.

Help for taxpayers? New legislation introduced in Congress by two members of the Senate Finance Committee (SFC)—Senators John Thune (R-S.D.) and Chuck Grassley (R-Iowa)—would strengthen taxpayer rights. Among other provisions, the “Taxpayer Bill of Rights Enhancement Act of 2015” increases damages and penalties for unauthorized disclosure or inspection of tax return information and improper collection activities by the IRS. According to Thune and Grassley, the IRS’ reputation has deteriorated in recent years and service has plummeted to an all-time low. “The IRS might talk about good customer service. Too often, talk is all there is,” said Grassley in a prepared statement. “The IRS needs to walk the walk. Congress needs to act. This bill will help swing the pendulum away from agency self-preservation and back to taxpayer service.”