Subject: Massive Multi-Billion Tax Revenue Source Still Untapped

Don't worry about "tax reform" until after you see that the IRS ENFORCES a massive tax penalty already in the code.

Near the bottom of IRS Form 1066, on Page 3, Line 11 is the place for REMIC Trusts to indicate the value of thier mortgages that are improperly owned. That number also is the TAX PENALTY that must be paid by the trusts. The estimated gross value of that unenforced, uncollected and unreported number is in the 10s of Billions that the IRS is ignoring, further kissing the offending banks' rearend.

With hundreds of billions of dollars of potentialtax revenue at stake and an unprecedented federal deficit, the IRS can use its audit power now with respect to purported REMICs to collect tax revenue and penalties.

James Peaslee, a partner at law firm Cleary Gottlieb who is an expert on taxation of securitized investments, said that even if the IRS finds wrongdoing, it might be loath to act because of the wide financial damage the penalties would cause. He notes that the REMIC investors, who he called "innocent parties," would have to pay rather than the banks that were responsible for any wrongdoing in transferring mortgage ownership.

But Adam Levitin, a Georgetown University Law School professor and expert on taxation, said that if the IRS fails to act, "it would be a backdoor bailout of the financial system."

If the IRS did impose penalties, the REMICs could turn around and sue the banks for causing the problems and not living up to the terms of the agreements establishing each REMIC, thus transferring the costs to the banks. If the IRS finds wrongdoing but fails to act, the IRS would forego "potentially enormous tax revenue that would be passed on to the federal government," Levitin said. "Given the federal budget deficit that's not something to sniff at," he added.

WASHINGTON (Reuters) - The Internal Revenue Service has launched a review of the tax-exempt status of a widely-held form of mortgage-backed securities called REMICs.

The IRS confirmed to Reuters that the review comes in response to mounting evidence that banks violated tax requirements by mishandling the transfer of mortgages to REMICs, short for Real Estate Mortgage Conduits.

Should the IRS find reason to take tough action, the financial impact could be enormous. REMIC investments are held by pension funds, in individual retirement plans such as 401(k)s and by state and local government entities.

In a brief statement in response to questions from Reuters, the agency said: "The IRS is aware of questions in the market regarding REMICs and proper ownership of the underlying mortgages as set out in federal tax law, and is actively reviewing certain aspects of this issue."

But if the IRS concludes that the REMIC investments failed to comply with strict requirements in the federal tax code, the REMIC would have to pay a 100 percent tax on the income from those investments.

That means that the IRS could confiscate the full amount. Tax law experts said the REMICs also could be subjected to additional penalties for failing to file tax returns on the income.

The big banks in this country do whatever they please because they know that they can get away with whatever they please.

Would you like to shore up the Social Security Trust Fund to it's rightful place in the economy? Then force the IRS to enforce current tax law related to Form 1066. It is gross hypocrisy to "reform" the tax system when those in charge of it pick and choose which parts of the tax code it will enforce.

If properly allocated, this penalty could "make amends" to the thousands of displaced homeowners in this country. The IRS is quick to demand payment for the taxes due on the "forgiven" portions of an individual mortgage because that money comes from the people. But like oldtime Mafia family favoritism, it totally ignores this much larger source of badly needed tax revened.

Don't talk to me about reform until you enforce what's already in place.

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