TAXPAYER PROTECTIONS
(OFFSET FOR ADDITIONAL CHILD CARE FUNDS)

The following is an explanation of the three provisions that offset the increase in mandatory child care funding provided by the Republican bill. These provisions have previously passed the House as part of the Tax Relief Guarantee Act of 2002 (H.R. 586) on April 18, 2002.

I. Exclude Interest on Overpayments from Gross Income

- Helps taxpayers by ending tax on the interest they earn from the Federal Government when they over pay their income taxes. <u>The taxpayer, not the IRS, decides whether to take advantage of this new system</u>.
- Taxpayers will get both a refund and any interest due on the refund free of tax.
- This raises revenue in the first year because Joint Committee on Taxation assumes the provision will slow down the rate at which taxpayers claim refunds. Over the long term, the provision reduces revenues as taxpayers claim refunds through amended returns at later dates.

II. Allow Taxpayers to Limit Underpayment Interest Through Use of a Qualified Reserve Account

- Saves taxpayers money by allowing them to stop the accumulation of interest charges on underpayments of tax. <u>The taxpayer, not the IRS, decides whether to use this new account</u>.
- Amounts deposited in this way could either be withdrawn with interest or used to offset an underpayment of tax.
- This provision raises revenue because taxpayers deciding to use it will put additional funds on deposit in Treasury accounts.

III. Allow Partial Payment Installment Agreements

- Paying taxes in installments makes life easier for taxpayers.
- This provision expands the installment system so the IRS can allow taxpayers, who would otherwise be unable to pay, to make partial payment through installments.
- This provision raises revenue, because it lets more taxpayers make payments on an installment basis. The Treasury will receive more funds due to deposits of taxes by taxpayers using the expanded installment system.