Overview

This bill requires the Commissioner of Revenue to establish an offer in compromise program with specific schedules setting forward guidelines for amounts taxpayers are allowed to retain when entering agreements for partial payments of unpaid taxes.

The bill also exempts gains on the sale of agricultural production property from individual income taxation, if the taxpayer would be insolvent as a result of paying the tax.

1 Offers-in-compromise. (a) Requires the department of revenue to establish a program of offers-in-compromise of tax liabilities modeled on the offers-in-compromise program established by the Internal Revenue Service. The bill requires the commissioner of revenue to establish guidelines to be used by employees of the department to determine whether an offer-in-compromise or an offer to make installment payments is adequate and should be accepted to resolve a dispute over unpaid taxes. The commissioner is required to develop and publish schedules of national and local allowances designed to provide that taxpayers, after they enter into the compromise agreement, will still have adequate means to provide for their basic living expenses. The bill specifies that a taxpayer's interest in a motor vehicle, to the extent of the value of a vehicle that is allowed to be exempt from attachment to pay debts, will not be considered an asset.

The guidelines must provide:

The department will not reject an offer-in-compromise from a low-income taxpayer solely on the basis of the amount of the offer.

For an offer-in-compromise that relates to the issue of liability rather than the ability of the taxpayer to make the tax payment, the offer cannot be rejected only because the commissioner is unable to locate the taxpayer's return or information to verify the liability, and the taxpayer will not be required to provide an audited, reviewed, or compiled financial statement.
(b) The commissioner must establish procedures for an independent review of proposed rejection of an offer before the rejection is communicated to the taxpayer. Taxpayers must be allowed an appeal of any rejection to the taxpayer rights advocate. The procedures must also provide for notification of the taxpayer when an offer-in-compromise has been accepted, and issuance of certificates of release of any liens imposed related to the liability that is the subject of the compromise. Finally, the department's regulations must require presentation of a counter offer by the commissioner if the amount offered by the taxpayer in an offer-in-compromise is not accepted by the commissioner.

2 **Gains on farm property sales.** Provides that income realized on the sale or exchange of agricultural production property, including real property and equipment used in a farm business, will be exempt from taxation if the taxpayer would become insolvent if the tax were payable on the income from the sale. This exemption applies only if the proceeds of the sale were used only to discharge the indebtedness secured by the property that was sold. Under current law, this exclusion extends only to taxpayers who are insolvent at the time of the sale.

3 **Effective date.** Provides that section 1 is effective the day following final enactment and applies to offers-in-compromise submitted after June 30, 1999.

Section 2 is effective for taxable years beginning after December 31, 1997.