



Federation of Tax Administrators

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December 10, 2007

The Honorable Charles Rangel
2354 RHOB
Washington, DC 20515

The Honorable Max Baucus
SH – 511
Washington, DC 20510

The Honorable James McCrery
242 CHOB
Washington, DC 20515

The Honorable Charles Grassley
SH - 135
Washington, DC 20510

Gentlemen:

I am writing on behalf of the Federation of Tax Administrators to express the extreme concern of state tax administrators over the continuing delay in finalizing the alternative minimum tax for 2007 and the subsequent impact that such a delay has on **both federal and state** income tax filing preparations and seasons. The Federation is an association of the principal tax administration agencies in each of the 50 states, District of Columbia, New York City and Puerto Rico.

The Internal Revenue Service indicates that it will be unable to process federal tax returns until seven weeks after the tax law for 2007 is finalized. Already, that means the opening of the filing season will be delayed beyond the announced January 11 date. Thinking optimistically, it is quite likely to be mid-February before the IRS can begin to process 2007 tax returns.

My purpose in writing is to make certain that you understand that this delay will effectively delay the beginning of any state income tax filing for an equivalent period of time, a factor that will only increase the confusion and frustration that taxpayers will experience. In every state, it is effectively necessary to complete a federal tax return to be able to accurately complete the state tax return. More directly, nearly 75 percent of returns filed in the early part of the filing season are filed electronically, and the vast majority are filed through a cooperative program in which the federal and state return are filed simultaneously.

In short, if the federal filing season is delayed, state income tax filing seasons will also be delayed. A significant delay in the ability of federal and state tax agencies to process tax returns has a number of consequences -- all of which are undesirable. Regardless of efforts made to communicate with taxpayers, they will be confused, will file inaccurate returns and will become frustrated with the process as they try to understand why they can't file their return and receive

their refund. It is entirely likely that taxpayers will shift to filing their returns on paper if practitioners are unable to file electronic returns -- at both the state and federal level. This could possibly undo years of effort by IRS and states to convert taxpayers to electronic filing. Once the filing season is opened, the flood of returns may well strain the capacity of federal and state systems to process electronic returns and may lead to a significant increase in the filing of fraudulent returns in an effort to take advantage of the crush of returns being filed. Finally, the inability to process returns and refunds in a timeframe to which taxpayers have become accustomed will almost assuredly increase the use and the cost of refund anticipation loans.

The real victim of a delayed filing season is the U.S. taxpayer. The inability to file returns in the manner to which they have become accustomed will generate frustration, confusion, anger and noncompliance.

On behalf of state tax agencies, I would encourage you to proceed as expeditiously as possible to finalize the tax law for 2007 so that federal and state tax agencies can prepare to provide taxpayers with the service they expect and deserve.

Sincerely,

A handwritten signature in black ink, appearing to read 'J. Johnson', with a long horizontal flourish extending to the right.

Jerry Johnson, Vice Chair
Oklahoma Tax Commission
And President, Federation of Tax Administrators

cc. Linda Stiff, Acting Commissioner
Internal Revenue Service