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Tax Regs in Plain English

IRS Restructuring and Reform Act of 1998

3301 - Elimination of Interest Rate Differential

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Section 3301

A. Provision(s) covered: RRA § 3301 Elimination of Interest Rate Differential (Amends § 6621 of the Code) Global Interest Equalization

B. Background: Treasury and the IRS conducted an interest netting study and released a report dated April 21, 1997, which concluded that under present law the IRS could not administratively eliminate the interest rate differential between the overpayment rate and underpayment rate for all periods of mutual indebtedness between the Government and the taxpayer. The report noted that while such interest netting would be consistent with the intent of Congress, additional legislation would be required to implement such netting.

C. Change(s): The provision eliminates the interest rate differential for periods of mutual indebtedness (i.e. the net interest rate for the period of mutual indebtedness will be zero). The provision applies to

1. interest periods immediately after the date of enactment, and
2. interest periods before the date of enactment if the taxpayer identifies and establishes periods of mutual indebtedness and requests (before December 31, 1999) that the IRS apply the zero rate. The indebtedness may involve any type of tax.

D. Impact: The IRS will need to determine periods of mutual indebtedness for periods after the date of enactment and apply the zero rate to the periods. The IRS should also anticipate that taxpayers will request that the zero rate be applied to periods before the date of enactment, and that the periods will include closed tax modules. The application of this provision will require manual interest computations. As a result, Service Centers, Exam, and Appeals will be required to devote additional resources to this issue.

E. Necessary Actions:

1. Design a system and establish procedures to provide for elimination of interest rate differential for periods of mutual indebtedness after the date of enactment.
2. Issue guidance on the application of the provision, including how taxpayers can request that the zero rate be applied to periods both before and after the date of enactment.
3. Revise IRM.
4. Revise Publications.

F. Other Special Comments: The IRS should consider the criteria for establishing periods of mutual indebtedness.

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