



Committee On Finance

Max Baucus, Ranking Member

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Statement of Senator Max Baucus
A Tune-Up On Corporate Tax Issues: What's Going On Under The Hood?
Hearing before the Finance Committee

Woodrow Wilson once said, "Every great man of business has got somewhere a touch of the idealist in him." Based on the many Montana business owners whom I have met, I believe that is true. They take care of their workers, and they pay their taxes, because it's the right thing to do.

Unfortunately, there are other people in business, as well. The IRS estimates that every year, taxpayers fail to pay \$350 billion in taxes that they owe. That's every year. And that number is growing. And about 40 percent of that tax gap is attributed to corporate and other business income.

The term "tax gap" understates the problem. We have gone far beyond a "gap." At \$350 billion a year, it is more like a tax gulf.

The tax gap is not just the IRS's problem. It's our problem. It's the problem of all taxpayers in America who pay their fair share.

Former IRS Commissioner Charles Rossotti called it the "free-rider tax." Those who do not pay get a "free ride" on the backs of everyone who does.

On February 7, Treasury Secretary Snow testified before this Committee. I asked him about the administration's plan for closing the \$350 billion annual tax gap. I did not get a satisfactory answer.

He said: "The IRS continues to work on it. They are aware of it." And he referred me to five legislative proposals in the President's budget. The Secretary argued that these five proposals were going to help close the gap.

I have studied the administration's proposals. They are very modest. According to the administration's own projections, these proposals would raise \$3.5 billion over ten years. The yearly tax gap is \$350 billion. Over ten years, that's \$3.5 trillion — with a T.

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So, the administration is proposing a \$3.5 billion “fix” for a \$3.5 trillion problem.

I told Secretary Snow at the hearing that I wanted results. I wanted a plan within 30 days. That deadline has come and gone. And yet the tax gap — the tax gulf — keeps expanding.

The IRS says that it gets a four-to-one return on investment in tax enforcement. For every \$1 it spends, it gets \$4 back in additional taxes collected. So, it would make sense for the administration to propose an IRS budget that would take advantage of that four-to-one return. But they have not. And the tax gulf just keeps growing.

Two years ago, I issued a challenge. I called on the IRS to achieve a 90 percent voluntary compliance rate by 2010. At the time, the tax gap was \$311 billion a year. Two years later, we are looking at a gap of \$350 billion a year. If we continue at this rate, by 2010, the tax gap will be more than \$500 billion a year.

We need effective enforcement efforts to detect and stop abuse and fraud. It is critical that tax cheats know that they are going to get caught.

We need to stop winking at the problem. We need to stare it down. We need to make sure that all taxpayers are on a level playing field. We need to ensure that some do not gain a competitive edge because they have gamed the tax system. Protecting taxpayer’s rights, providing quality service, and enforcing the law effectively are obligations this IRS should meet and exceed.

So, Mr. Chairman, I am glad that we are holding this hearing today to examine the corporate tax gap. I hope that these hearings will produce solid recommendations to close the tax gap. Montana businesses, and honest businesses all across America, are counting on it.

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