JRT Opening Statement

Closing the Tax Gap: Lost Revenue from Noncompliance and Role of Offshore Tax Evasion

Tuesday, May 11, 2021

Thank you, Chairman Whitehouse.

Let me begin by saying I'm looking forward to working on this subcommittee with you.

The subcommittee on tax and IRS oversight covers a number of important issues, perhaps none more so than the responsible stewardship of taxpayer dollars.

And I am optimistic we will work to find common ground and common solutions.

Today, we are here to discuss the tax gap – what it is, what its components are, and how to reduce it.

The chairman also has a particular interest in the role of offshore tax evasion, an important issue as well.

The tax gap is real.

Republicans on this committee support closing it.

The tax gap—the difference between taxes owed and paid—has been a stubborn problem for decades.

The IRS periodically estimates the tax gap using audits and other data it collects.

As of September 2019, the IRS estimates the average gross tax gap at $441 billion per year for 2011-2013. After late payments and enforcement, the net tax gap is $381 billion.

While those numbers are improvements from preceding years, the tax gap remains a problem.

The IRS Commissioner even speculated that the tax gap could be as much as $1 trillion per year – a number that far exceeds the official IRS estimate.

While that guestimate may conflate the tax gap with tax evasion, one thing is certain: no one at any income level should believe they are safe in cheating on their taxes.

And we should pursue bipartisan measures to reduce the tax gap and better enforce our tax laws.

But any such effort must strike the appropriate balance between taxpayer responsibilities and taxpayer rights.

To address the tax gap, some believe that increased IRS resources, tax audits, and intrusion of taxpayers' personal information will automatically yield a golden goose of revenue.

For example, President Biden recently proposed increasing IRS funding by $80 billion over the next 10 years, projecting those funds would net $700 billion over the decade.

Former IRS Commissioner John Koskinen, who served as commissioner under Presidents Obama and Trump, said he thought that $80 billion was too much. I agree.

Based on official estimates about the tax gap, and what can reasonably be collected, a return of $700 billion is a tall order as well.

An analysis from the Wharton Business School projected a lower payoff by $220 billion.

CBO estimated that increasing IRS funds for examinations by $40 billion over 10 years would increase revenues by $103 billion, resulting in a net $63 billion decrease in the deficit.

It is not to say that better utilized or enhanced resources couldn't help find real money, but let's be straight about the return-on-investment – particularly when those figures are portrayed as offsets for new spending proposals.

Republicans are open to discussions about IRS resources, but those discussions should include measures to improve customer service, ensure existing resources are allocated optimally, and promote smarter and more effective audits.

Just as with President Trump's budgets, which also included additional IRS funding and enforcement resources, any increase to the agency should come with commensurate accountability and transparency.

Memories remain fresh of past IRS use of taxpayer resources to disproportionately single out conservative organizations for extra scrutiny.

Some on the other side of the aisle will say that Republicans hollowed out the agency's coffers, but IRS budgets have been generally stable for the past 15 years. Any budget reductions are compared to the agency's all-time high budget of 2010, which spiked under all Democratic rule.

In addition to boosting enforcement, the Biden administration has proposed tackling the tax gap by requiring banks to give the IRS new documentation on income from businesses such as partnership and sole proprietorships, as well as individuals with business income.

Under the proposal, the IRS would soon be receiving troves of new data on taxpayers' bank accounts. As you might imagine, many Americans are understandably concerned with the risk of government overreach. More specifically, they're concerned their local banks could turn into extensions of tax enforcement on behalf of the IRS.

While we should look at ways to improve reporting, the IRS should better use the information it already receives, like partnership income reports it has collected for years.

Just for everyone to understand, enforcement is only one method to reduce the tax gap. And it is actually two degrees of separation between the tax gap estimate and revenue that can be scored from enforcement proposals.

CBO budget rules prohibit scoring hoped-for but entirely uncertain revenue from enforcement.

Policymakers need to be reasonable about what is doable on the persistent problem of the tax gap and the limits of scorekeeping rules, particularly for near-term spending proposals.

Finally, while we should find bipartisan ways to reduce the tax gap, it’s worth noting that our nation has a relatively high and stable voluntary tax compliance rate.

According to the most recent IRS data, about 84% of taxes were paid voluntarily and on time. After enforcement efforts and late payments were taken into account, about 86% of taxes were paid.

Tax compliance levels remain substantially unchanged since at least the 1980s.

There is not one solution to solving the tax gap or one type of taxpayer responsible for it.

Reducing the tax gap requires a comprehensive strategy and effective execution from the IRS, and appropriate safeguards and accountability to taxpayers.

We have an excellent panel before us today.

Thank you all for being here, and I look forward to hearing your testimony.