



Committee On Finance

Max Baucus, Ranking Member

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Statement of U.S. Senator Max Baucus
U.S. Senate Finance Committee Hearing: "The \$350 Billion Question: How to Solve the Tax Gap"

"If everyone fully obeyed the law, our current tax code would bring in as much as \$353 billion more a year. That's about one billion dollars a day in debt that the government would not be piling up, a billion dollars a day less borrowing if we collected the tax gap. Mr. Chairman, in just the time since you announced this hearing last Thursday, \$7 billion in taxes that are lawfully owed have gone uncollected. And that number does not represent a new estimate based on the latest research. I suspect that the actual number may be significantly higher.

Everett Dirksen once said, 'a million here, a million there, pretty soon you're talking real money.' The \$353 billion tax gap is real money. But most Americans would find that amount of money hard to visualize.

How high would a stack of \$100 bills have to be to reach \$353 billion? The answer is astonishing: 334 miles high. In my home state of Montana, the stack of \$100 bills would stretch from Billings to Missoula. In other parts of the country, it would stretch from Hartford, CT to Washington D.C. (350 miles); Los Angeles, CA to San Jose, CA (342 miles); or Jackson, MS to Atlanta, GA (380 miles).

But what does the Tax Gap mean to the school teacher in Montana or the waitress in Iowa? It means that you are paying more taxes on your wages than you should, because we are not collecting the taxes from those who are evading the law. It means that the value of a dollar in your pocket is actually less, because our nation has been piling up debts and owes more money to foreign governments. It means we could reduce the deficit by three-fourths. It means that we are not collecting money that could cover most of the \$492 billion in annual Social Security outlays. It means that we could completely pay for the \$294 billion in annual Medicare costs for our nation's sick and elderly. It means that our public schools have roofs that leak, too many kids in each classroom, and inadequate access to textbooks.

Not closing the Tax Gap – that is, not collecting the taxes that are owed, is akin to looking the other way when there's shoplifting going on. If a store keeps getting robbed, the store has to charge higher prices for the merchandise it sells. And if the robberies continue, the store will go out of business. If we fail to collect the taxes that are lawfully owed, it undermines confidence in our government. It undermines our standard of living.

This is not about raising taxes. This is simply about making sure that what is owed is paid. This is about making sure that people who owe taxes do not dodge their responsibility to their fellow citizens. Indeed, this is about not having to raise taxes on honest people to make up the difference.

Further, the annual tax gap for underreporting of employment taxes is estimated to be \$71 billion. About \$60 billion of this amount is for underreporting of Social Security employment taxes. If we could eliminate one-fourth or one-half of this employment tax gap, it would significantly extend the life of Social Security.

Last July, when we held a hearing on the Tax Gap, we heard about the scope of the problem and some ways to close the gap. People have been talking about the Tax Gap for decades. It is time to stop talking and start doing something about it. My goal for this hearing is to produce a package of administrative and legislative solutions to close the Tax Gap.

But I want to offer a word of caution to the administration and to Commissioner Everson. The IRS cannot close the Tax Gap simply by increasing enforcement. Issuing more liens. Conducting more seizures. Levying more bank accounts.

We do need targeted, appropriate enforcement. If, however, the IRS lets taxpayer service slide -- If the IRS diminishes the access and accuracy of taxpayer service -- including the essential need for face-to-face taxpayer service -- then we fail to help taxpayers comply with the law on the front end. Ensuring up front quality is more efficient than back end enforcement.

With that in mind, I urge the administration and Commissioner Everson to re-examine the budget that you have put forward. The bottom line is that you did not ask for the resources that are necessary to do the enforcement, taxpayer service, and modernization that are required in order to close the Tax Gap.

The IRS Oversight Board, in keeping with Congress's intent when we created the Board, has told us that \$1 billion more would do the job -- without the unacceptable cuts to taxpayer service that have been proposed.

To close the tax gap -- including the Social Security employment tax gap -- requires increases in resources for quality IRS enforcement and taxpayer service and education over a sustained period of time. If we are to provide such increases in resources, I want the IRS to tell us its goals for reducing the tax gap and the Social Security employment tax gap and how the IRS plans to accomplish its goals.

With that in mind, closing the Tax Gap is not just about more resources for the IRS. I hope to hear some solid, specific recommendations from all of today's witnesses so that we can move forward to close the Tax Gap.

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