

Opening Statement of Senator Kyl, Chairman
Subcommittee on Taxation and IRS Oversight, Senate Finance Committee
At the July 26, 2006 Hearing
“A Closer Look at the Size and Source of the Tax Gap”

The full Finance Committee held a hearing in 2005 on the tax gap, that is, the difference between what the U.S. taxpayers owe and what the U.S. Treasury actually receives. The Budget Committee held a similar hearing earlier this year. Today’s hearing is designed as a follow-on to those hearings and will take a much closer look at the tax gap. We will consider its size, and what causes it to exist.

Chairman Grassley and Senator Baucus have asked the Treasury Department and the Internal Revenue Service to develop a strategy for addressing the tax gap. If members of this committee are going to evaluate any such strategy, I believe we need to have a more comprehensive understanding of the problem. And that is the purpose of this hearing – to give Senators on the Finance Committee an opportunity to learn more about the tax gap so that we can make better decisions when we are presented with legislative proposals designed to improve tax compliance.

Like revenue estimates produced by other government number crunchers, the tax gap is an estimate. But if Congress is going to push the IRS to reach a voluntary taxpayer compliance target, we need to know how good the estimate is and we need an understanding of where it could and should be improved. We also need to understand what data might be too difficult to collect without imposing unreasonable burdens on taxpayers.

In addition to understanding the numbers, we also need to consider where the current system is failing, what can be done to address those failures, and how efforts to improve tax compliance will affect taxpayers. In preparing for this hearing, we asked the witnesses to consider where current IRS enforcement practices are falling short and whether additional resources would improve compliance enough to justify the expense. We asked whether current enforcement tools are sufficient, or if additional tools, such as

increased information-reporting or withholding, would be appropriate. Finally, we asked the witnesses to consider the extent to which the tax system itself – with its mind-boggling complexity and special targeted tax benefits – contributes to the tax gap.

This last point – the need for tax simplification – may be the most reasonable way to address the tax gap. I know the Chairman of this Committee is pressing forward on tax reform and I expect that simplifying our tax system and improving compliance will be critical to that effort. Most Americans are responsible, honest, and hard-working, and we should not assume they are falling short in their tax obligations on purpose. A more simple and straightforward tax system will reduce compliance costs and make it easier for Americans to pay the taxes they owe.