“How to Shrink the Tax Gap while Protecting Taxpayers”

Charles Rossotti (IRS Commissioner, 1997-2002)

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How Big is the Tax Gap

$ in Billions for 2019

- All Domestic Programs
- Tax Gap
- Total Taxes Paid by 90% of Individual Taxpayers
- IRS Budget

Shrink the Tax Gap
Where the Money Comes From

- Taxes Voluntarily Paid: 100%
- Taxes Not Paid (Net Tax Gap): 17.5%
- Taxes Recovered by Auditing: 0.5%

$t$ in billions

$\text{Taxes Voluntarily Paid}$  
$\text{Taxes Not Paid (Net Tax Gap)}$  
$\text{Taxes Recovered by Auditing}$
The Audit Process is Inefficient for the IRS and Taxpayers

• We don’t do enough audits:

<table>
<thead>
<tr>
<th>Audit Rate</th>
<th>2010</th>
<th>2019</th>
<th>% Decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Returns over $1 Million</td>
<td>8.40%</td>
<td>2.40%</td>
<td>71%</td>
</tr>
<tr>
<td>Corporations over $20 Billion Assets</td>
<td>98%</td>
<td>59%</td>
<td>49%</td>
</tr>
</tbody>
</table>

• Often, we do the wrong ones:

<table>
<thead>
<tr>
<th>No Change Rate</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Returns over $1 Million</td>
<td>20%</td>
</tr>
<tr>
<td>Large Corporations</td>
<td>38%</td>
</tr>
</tbody>
</table>

• The audits we do take too long:

<table>
<thead>
<tr>
<th>Average for Simple “Correspondence” Audit</th>
<th>7 Months</th>
</tr>
</thead>
</table>

Shrink the Tax Gap
What’s the Solution

• Increase voluntary compliance by letting taxpayers and the IRS have the same information.

• Technology—use all data we have to identify deficiencies reliably and specifically.

• Communicate with taxpayers.

• Provide enough skilled employees with the right tools.
Tax Gap by Visibility Category


- Income subject to substantial information reporting and withholding: $9B (1%)
- Income subject to substantial information reporting: $12B (5%)
- Income subject to some information reporting: $36B (17%)
- Income subject to little or no information reporting: $109B (55%)

Net Misreporting Percentage (Income)
## Technology is Powerful Multiplier

<table>
<thead>
<tr>
<th>Enforcement Program 2018 ($ in millions)</th>
<th>Cost</th>
<th>Revenue</th>
<th>ROI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Examination</td>
<td>3,716</td>
<td>15,017</td>
<td>4.0</td>
</tr>
<tr>
<td>Collection</td>
<td>1,635</td>
<td>38,985</td>
<td>23.8</td>
</tr>
<tr>
<td>Automated Underreporter (AUR)</td>
<td>208</td>
<td>5,364</td>
<td>25.8</td>
</tr>
<tr>
<td>Return Review Program¹</td>
<td>419</td>
<td>6,510</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: IRS FY2020 Budget and Performance Plan

¹ GAO Report: IRS reported that between January 2015 and November 2017, RRP prevented the issuance of more than $6.51 billion in invalid refunds. As of March 30, 2018, IRS reports spending about $419 million developing and operating RRP. For fiscal year 2019, IRS requested $106 million.
BUT What are the Risks and What are the Protections

Risks need to be managed

- False Positives
- Burden of Resolution

Protections need to be upheld

- No demand without prompt, practical communication
- Right of appeal