

# *“How to Shrink the Tax Gap while Protecting Taxpayers”*

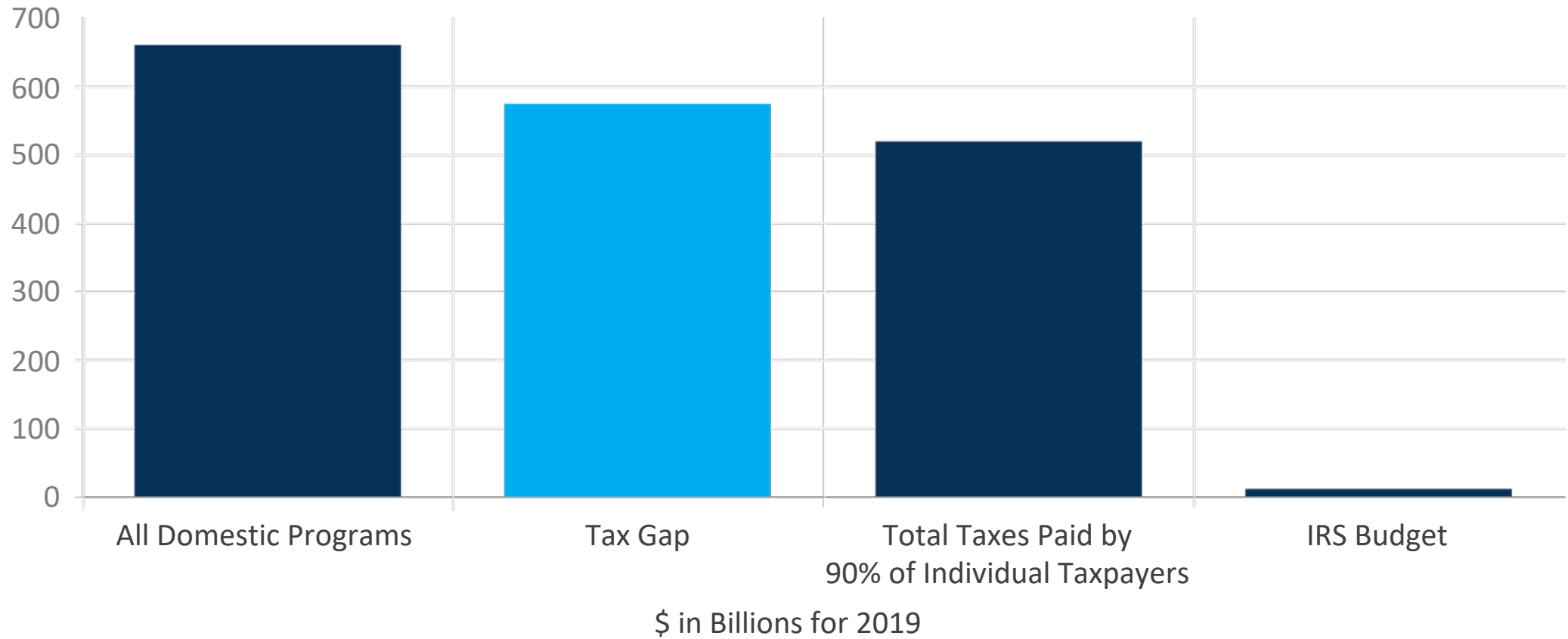
Charles Rossotti (IRS Commissioner, 1997-2002)



5<sup>th</sup> International Conference on Taxpayer Rights

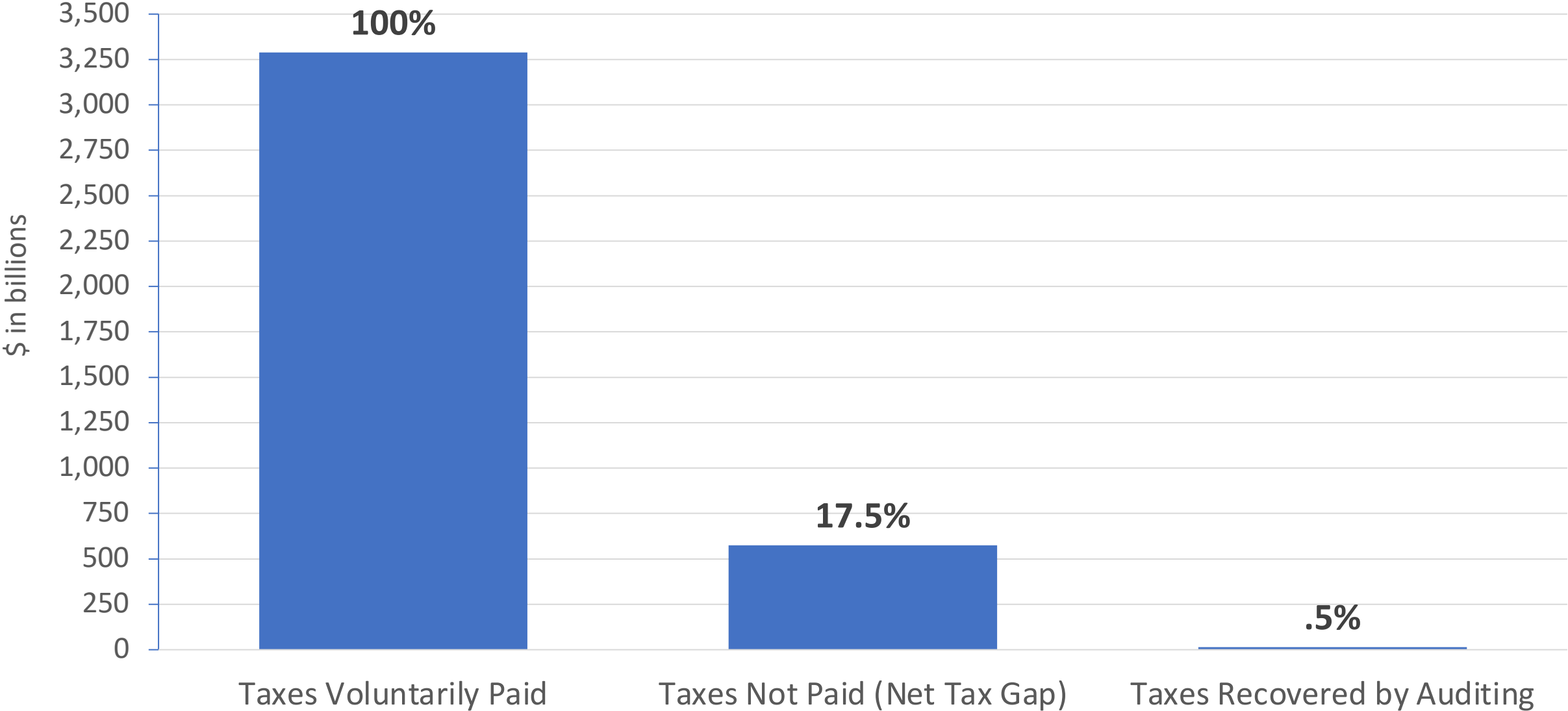
May 28, 2021

# How Big is the Tax Gap



**Shrink the Tax Gap**

# Where the Money Comes From



Shrink the Tax Gap

# The Audit Process is Inefficient for the IRS and Taxpayers

- We don't do enough audits:

Audit Rate	2010	2019	% Decrease
Individual Returns over \$1 Million	8.40%	2.40%	71%
Corporations over \$20 Billion Assets	98%	59%	49%

- Often, we do the wrong ones:

No Change Rate	
Individual Returns over \$1 Million	20%
Large Corporations	38%

- The audits we do take too long:

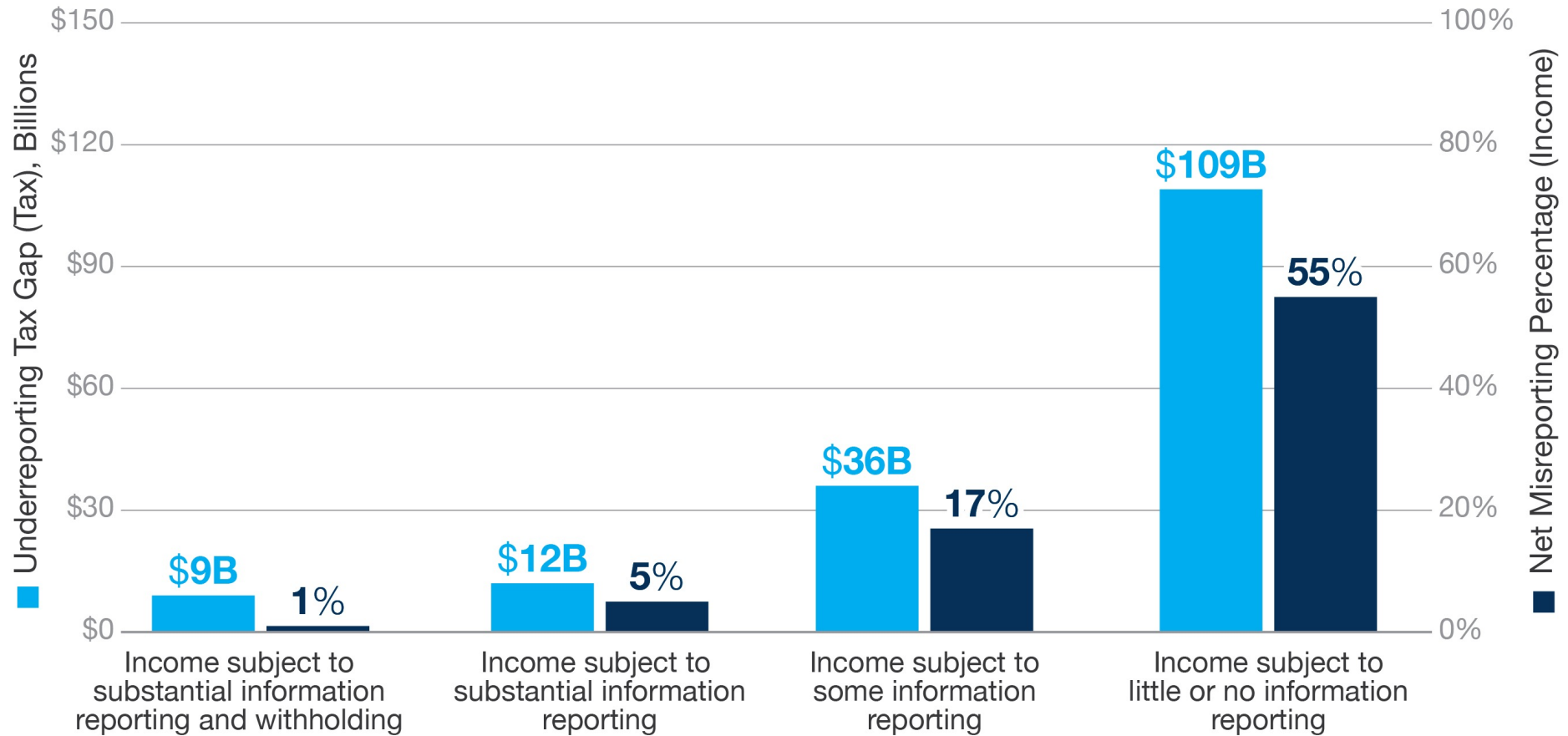
Average for Simple "Correspondence" Audit	7 Months
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# What's the Solution

- 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

*Tax Year 2011–2013 Individual Income Tax Underreporting Tax Gap and Net Misreporting Percentage Estimates By “Visibility” Category of Income Items*



Shrink the Tax Gap

# Technology is Powerful Multiplier

<b>Enforcement Program 2018</b> <i>(\$ in millions)</i>	<b>Cost</b>	<b>Revenue</b>	<b>ROI</b>
Examination	3,716	15,017	<b>4.0</b>
Collection	1,635	38,985	<b>23.8</b>
Automated Underreporter (AUR)	208	5,364	<b>25.8</b>
Return Review Program <sup>1</sup>	419	6,510	<b>16</b>

Source: IRS FY2020 Budget and Performance Plan

<sup>1</sup> 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