



WHITE PAPER

**REDUCING THE TAX GAP
NATIONAL TREASURY EMPLOYEES UNION**

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The Internal Revenue Service is sending mixed messages to Capitol Hill and to the public when it commits to eliminating the \$345 billion tax gap but refuses to take the necessary steps to make that happen. It has not asked Congress for the resources and necessary staff to address the gap. It has shown no willingness to move current staff whose jobs are being eliminated to functions such as Automated Collection Systems (ACS) where they can make the most difference in collecting past due taxes. It has begun eliminating estate and gift tax attorneys, thereby depriving itself and the public of those employees who find the biggest cheats. And it is contracting out jobs to debt collection agencies and paying them a bounty of up to 24% for what their own people could do for much less.

In April 2006, the IRS released updated estimates showing that the tax gap – described as “the difference between what taxpayers should have paid and what they actually paid on a timely basis” - was approximately \$345 billion in Tax Year 2001. As Nina Olson, the National Taxpayer Advocate noted, this amounts to a per-taxpayer “surtax” of some \$2,000 per year to subsidize noncompliance. While the agency has made small inroads as stated in the current Administration’s own FY 2006 budget submission to Congress, much more could be done if IRS and the Administration would respond to the crisis caused by a dramatically decreased workforce facing a dramatically increased workload. Only then will the IRS be able to realistically lessen the gap between what is owed and what is collected.

Rebuilding the Workforce

In his March 29, 2006 testimony before the House Subcommittee on Transportation/Treasury Appropriations on the Fiscal Year 2007 budget, Commissioner Mark Everson requested an overall budget of \$10.6 billion which included a miniscule increase of less than one and a half percent for the IRS. In the area of tax law enforcement, the request was slightly higher at approximately 2 percent, but was predicated on unspecified cuts to other IRS functions. No specific request was made of Congress to fund significantly more personnel slots dedicated to an aggressive or even *realistic* program to attack the tax gap.

Yet, the IRS points to a noncompliance rate of 16.3 percent which includes nonfiling of tax returns, underreporting tax liabilities and underpayment of taxes due. If the IRS were serious about reducing this tax gap, it would be asking for the personnel to attack it.

Evidence abounds that over the last ten years the IRS workload has increased while its workforce has shrunk. According to IRS's own annual reports and data, in 1995 IRS saw 114.6 million returns filed. In 2003, the Service saw 130.3 million returns filed after a steady annual climb. Yet for that period, total numbers of employees shrunk from 114,000 to 94,000. Even more alarming is that during that period, revenue officers and revenue agents – two groups critical to reducing the tax gap – shrunk by 40 and 30 percent respectively. Revenue officers went from 8,139 to 5,004 and revenue agents fell from 16,078 to 11,513. (Source: *Transactional Records Access Clearinghouse*. Syracuse University. <http://trac.syr.edu/tracers>)

The idea of more staff to handle increasing work at the IRS is not new. In its 2003 annual report, the IRS Oversight Board pointed out that the agency's workload has increased by 16 percent while at the same time the number of full time equivalent employees dropped by 16 percent from 1999 to 2002. Since 1980, Syracuse University's tracking studies found a 26 percent increase in individual returns at the same time the agency suffered a 31 percent decrease in staffing. And the Treasury Inspector General for Tax Administration (TIGTA) found in his March 2006 report (2006-30-055) that "while the President's FY 2007 proposed budget for tax law enforcement is a slight increase over the FY 2006 budget, the difference would be needed to maintain the same level of service as provided for in the FY 2006 budget. Finally, former Commissioner Charles Rossotti testified that given more staffing, the tax gap could be significantly reduced.

Unless the Administration asks Congress for more resources for staffing, it cannot realistically expect to reduce the tax gap by a significant amount. It would be in the interests of IRS and the public to urge Congress to appropriate enough funds to return the agency's staffing to the levels in effect a decade ago.

Maintaining High Yielding Positions

The current move to eliminate IRS gift and estate tax attorneys is contrary to the agency's professed interest in reducing the tax gap. Not only is the recently announced move disingenuous to the attorneys and personnel affected, but it is also short-sighted and ill conceived. According to IRS, these attorneys bring in more dollars per audit than others because they look at wealthier taxpayers. It is not uncommon for gift and estate

tax attorneys to find simple mistakes in returns that can bring in thousands of dollars to the Treasury quickly.

At a time when the IRS is wrestling with the \$345 billion tax gap, letting big cheaters off the hook by cutting the people who scrutinize their returns is unwarranted and bad public policy.

Reorganizing to Increase Efficiency

In the same vein, turning the collection of taxes over to private companies – and paying them a bounty -- is another flawed move and fiscally irresponsible. IRS is currently implementing a program to turn over tax collection cases involving 2.6 million taxpayer files, including social security numbers, to private collection agencies without adequate security measures in place. Under the plan, private collection firms can keep 21% to 24% of what they collect, depending on the size of the case. Commissioner Everson has conceded that IRS employees could do the work at less cost, and former Commissioner Charles Rossotti argued in a report to the IRS Oversight Board that assigning more IRS employees to collection work could bring in roughly \$30 for every \$1 spent. (Report to the IRS Oversight Board, Sept. 2002)

Conclusion

If the IRS is serious about closing the tax gap, it needs to ask Congress for more people to bring staffing up to the 1996 level, with a dedicated funding stream if necessary. It needs to move experienced staff from areas of less need, like paper return processing, to much needed Automated Collection Systems work, rather than laying them off by the thousands as they have done in New York and Memphis and are planning to do in Philadelphia and Andover, Massachusetts. It needs to keep high dollar producing

employees like estate and gift tax attorneys, rather than cutting that workforce in half.

And it needs to rebuild its dramatically shrunken workforce on both the compliance and customer service sides of the house.