

Chairman's Statement
Senator Tom Coburn, M.D. (R-OK)
Uncollected Taxes: Can We Reduce the \$300 Billion Tax Gap?
October 26, 2005

The federal budget deficit hit \$319 billion for the year just ended. The gap between revenues that should have been collected and those that actually were is known as the "tax gap." According to research by the Internal Revenue Service on individual income tax returns, the tax gap falls somewhere within the range of \$311 and \$353 billion for the 2001 tax year. Four-year old data is the most recent we have. Even worse, some argue that the tax gap is actually much larger than \$350 billion.

The tax gap is at least as big as—and probably much larger than—our current annual federal deficit numbers. I find it troubling to think that if taxpayers were paying the amount they owe in taxes each year, the nation could be running a positive balance at the end of each year, rather than adding \$3 or \$4 billion each year to the looming \$4.3 trillion federal deficit.

The tax gap is the combination of underreporting, underpaying, and non-filing of required tax returns altogether or on time are the three areas where non-compliance occurs. The tax gap is also measured by type of tax: income, employment, state or excise.

According to the IRS' most recent study, underreporting on individual income and self-employment taxes accounts for 80 percent of the tax gap. The IRS also reports that individual income and self-employment taxes on unreported income makes up \$134 to \$155 billion, almost half of the gross tax gap. As you might expect, underreporting can be either intentional or non-intentional, but nobody, including the IRS, is measuring which it is in most cases.

The National Taxpayer's Advocate reports that given the size of the current tax gap, the average tax return includes a \$2,000 per year "surtax" to subsidize noncompliance. If the average American knew that \$2,000 of his or her annual tax payment went to pay for the intentional or unintentional tax evasion of others, I believe there would be an aggressive call for IRS to do a better job at solving the problem.

The tax gap deals with fundamental fairness in how each tax-abiding citizen of this country is paying-or not paying-the money they owe to the country.

This hearing is not to focus on what type of tax policy is most fair to the American people; or what type of tax system will boost the economy. I believe that increasing the tax burden on the American people while we are currently wasting their money through innumerable improper payments, fraud, and unaccountable programs is

the wrong policy. Today's hearing is not about the size of the tax burden what should be done to the tax code.

Today, we're talking about the \$350 billion problem and how it might be solved. This hearing will allow us to take a better look at the sources of the tax gap, the reasons income is lost, and what weaknesses exist within the current system to cause these billion dollar inefficiencies.

The IRS balances its approach to tax gap reduction by focusing on both prevention – that is, improving taxpayer services – and enforcement after the fact. However, no official long-term compliance goals are driving IRS' endeavor. If we really want to see non-compliance rates decrease, the IRS must develop a results-oriented approach—something that can measure progress made in reducing the tax gap.

It is inherently unfair for one taxpayer's delinquency to be another taxpayer's burden. I look forward to hearing from our witnesses on what the tax gap and its impact on the federal deficit means for the future of our country.

I want to thank our witnesses for their time and preparation.