



Committee On Finance

Max Baucus, Ranking Member

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BAUCUS CALLS NEW TAX GAP NUMBERS ‘UNACCEPTABLE,’ CALLS FOR BOLDER IRS ACTION TO COLLECT TAXES OWED

*Finance Committee’s top Democrat terms Administration initiatives “weak,”
again urges multi-pronged efforts to end annual shortfall*

Washington, DC – U.S. Senator Max Baucus (D-Mont.), Ranking Member of the Senate Finance Committee, expressed strong disappointment today at revised IRS estimates that the gross tax gap for 2001 was \$345 billion. Baucus said the administration’s current plan of action to close the ongoing “tax gap” – the gulf between taxes owed and taxes actually paid – is unacceptably weak. He today advocated a number of much bolder steps by the Administration and by the Congress to close the tax gap. Collecting all taxes legally owed in this country would significantly reduce or wipe out America’s annual budget deficits.

“When people and companies that owe taxes don’t pay their taxes, the burden for paying this country’s expenses falls even more heavily on Americans who do their duty every April 15. It’s time for a comprehensive plan to go after scofflaws and tax cheats big and small, who are contributing to the deficit by not contributing their fair share,” said Baucus.

On February 7 of this year, Baucus called on Treasury Secretary John Snow to provide an aggressive Administration plan within 30 days to close the tax gap after Snow testified to the Finance Committee that the IRS is “aware of” and “working on” the tax gap. Snow pointed to five legislative proposals in the FY2007 budget that would address the problem, but those Administration proposals would only recover \$3.5 billion in uncollected taxes over the next ten years. That figure is one-thousandth of one percent of the estimated \$3.5 trillion tax gap that will exist over the same period.

“Unfortunately, the Administration’s budget plans won’t take any real bite out of this unacceptable tax gap – it just nibbles at this crisis while the deficit grows,” said Baucus. **“The Administration is proposing a \$3.5 billion solution to a \$3.5 trillion problem.”**

Baucus has repeatedly advocated more aggressive steps to close the tax gap, including stronger enforcement efforts and increased taxpayer assistance to help Americans file returns properly and pay the taxes they owe. He has called for House passage of Senate-approved legislation that clarifies the “economic substance doctrine,” to impede the design of abusive tax schemes, scams, and shelters that help taxpayers avoid taxes in ways unintended by Congress.

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Baucus was a sponsor of several provisions in the American Jobs Creation Act of 2004 that made it easier for the IRS to spot the use of shelters, and that beefed up penalties for abusive transactions. Baucus says other efforts should include congressional passage of the Taxpayer Accountability and Assistance Act to increase the accountability of paid tax preparers, filing of 80 percent of all taxes electronically to improve accuracy and payment, and better training for IRS workers. Ultimately, Baucus says, simplified tax laws will ease compliance for law-abiding taxpayers, and make it more difficult for dishonest taxpayers to get unintended breaks.

Recent Administration policy runs directly counter to many of these proposals. Two years ago, Baucus called on the IRS to have 90 percent of Americans voluntarily paying all their owed taxes by 2010. Every percentage point increase in voluntary compliance would raise \$21 billion for the U.S. Treasury without raising anyone's taxes. Unfortunately, compliance rates have gone down. The President's FY2007 budget weakens tax gap efforts by cutting direct funding for taxpayer services that help Americans file their returns correctly. Last year, Baucus kept 68 Taxpayer Assistance Centers from being closed and hours for toll-free telephone assistance from being cut, but the IRS did shut down its Tele-File program. The President's FY2007 budget also includes no real increases for IRS enforcement efforts, and cuts funding for technological innovations to help increase lawful collections. To make up for budget underfunding, the IRS now charges "user fees" for taxpayer services – further burdening law-abiding Americans working to pay the taxes they owe.

“If we closed the tax gap, America could stop borrowing and our budget deficits could disappear. The Federal government is failing the millions of Americans who patriotically pay their fair share of taxes when it fails to act aggressively here,” said Baucus. **“I hope the release of these new numbers is followed by a renewed commitment from the Administration to tackle the tax gap with more than words and weak budget proposals. We need to embark now on a full program of solutions truly commensurate with this huge problem.”**

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