



For Immediate Release  
April 19, 2007

Contact: Carol Guthrie (Baucus)  
Jill Gerber (Grassley)  
(202) 224-4515

## **GAO FINDS OPPORTUNITIES TO NARROW “TAX GAP,” SAYS IRS RESEARCH NEEDS TECH IMPROVEMENTS**

*Washington, DC* – A Government Accountability Office (GAO) review of an Internal Revenue Service (IRS) research project has outlined 14 opportunities for IRS to identify and collect more unpaid taxes. At the request of Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Republican Chuck Grassley (R-Iowa), GAO looked at the National Research Project that IRS launched to see how many taxpayers underpaid or overpaid Federal taxes in 2001. GAO reviewed IRS files to see where the most taxpayers willfully or mistakenly misreported their tax obligations. Improving reporting in these areas will help the IRS bring in more of the \$345 billion in taxes that go unpaid each year – a loss known as the “tax gap.”

**“GAO’s findings offer IRS a real opportunity to improve compliance with our tax laws, just as the Finance Committee has said they should,”** said Baucus. **“Better customer service can help taxpayers avoid the mistakes found most frequently, so honest Americans can pay their taxes properly and on time. More effective enforcement can stop those who actively seek to defraud their fellow Americans by willfully misreporting the deductions and exemptions they’re due.”**

Grassley said, **“Taxpayers need to pay what they owe, not a penny more, not a penny less. The more we can drill down on the reasons for overpayment or underpayment, the more fairness we can add to the system and the more compliance we’ll achieve. Identifying the tax gap’s causes and focusing IRS enforcement on those causes will shift any undue attention on honest taxpayers, allowing them to continue complying with the law.”**

At a Committee hearing this week, Baucus informed Treasury Secretary Henry Paulson that the Finance Panel will expect the IRS to improve Americans’ voluntary compliance with tax laws to 90 percent by 2017. GAO’s report to Baucus and Grassley, posted online at <http://www.gao.gov/new.items/d07423r.pdf>, identifies more than a dozen areas to improve compliance in reporting of tax obligations. These areas are types of tax deductions and exemptions where taxpayer mistakes or deliberate fraud caused a significant loss – where taxpayers reported the wrong amounts by more than five percent or by more than \$450 each, or where the total amount of misreporting among all taxpayers in that area topped \$3 billion. IRS examiners and officials weighed in on which provisions should make the GAO list.

GAO also found that the IRS’s overall estimate of the tax gap, and opportunities to improve compliance with tax laws, would be helped by better technology and information storage. Paper storage of some files, as opposed to electronic storage, makes tax data from the National Research Project harder to assess. The GAO found in two other studies that the IRS was unable to locate 153 paper files. Baucus advocates technology improvements at the IRS, both to make the agency work more effectively and to detect and deter fraud.