Transcript of Remarks by Chairman Kent Conrad (D-ND)
at Senate Budget Committee Hearing
on President Bush's FY 2008 Budget Proposals on Tax Compliance
with IRS Commissioner Mark Everson
February 14, 2007

Let me begin by highlighting the serious fiscal challenges that we see facing the nation. I call it the wall of debt. We started out this administration, after the first year, with almost $6 trillion of debt. By the end of this year, it will be $9 trillion, headed for $12 trillion by 2012 if we don't respond.

And it is very interesting, I would say to my colleagues on the Committee, as I work on this budget, I find among our colleagues such a deep impulse to embrace every tax cut and embrace every spending initiative. Even though we all know we have to change, among our colleagues there is a great impulse not to change. It has been made very clear to me over the last several days.

While increased spending has contributed to this growing debt, lower revenue has also been a factor. If we look at the revenue since 2000; back in 2000, we had just over $2 trillion of revenue. We didn't get back to that amount in real terms until 2006. We didn't get back to the revenue base we had in 2000 in real terms, inflation adjusted terms, until 2006.

My colleagues are quick to talk about the revenue increase of the last several years, and they are absolutely right about that. If you just focus on the last several years we've had strong revenue growth, which is typical of any recovery. But what nobody wants to talk about is we've had six years of no revenue growth, and the result is, with increased spending, the debt has jumped on us, and jumped dramatically, and this is before the baby boomers retire.

We are faced with a very inconvenient truth, and the inconvenient truth we are faced with is the baby boomers are going to retire, and they are going to be eligible for Social Security and Medicare, and we're going to have to do something about it.

Even with the recent revenue improvement, real revenues are still lagging behind where they would be in a typical recovery. We have looked now at the nine major recoveries since World War II, and we find that we are still running $127 billion short of the typical recovery.

According to IRS's latest estimate, the tax gap in 2001 was $345 billion. The tax gap is the difference between what is owed and what is paid. My own belief is that since 2001, that it is likely that the tax gap has grown even larger. I have long believed that closing the tax gap is one of the first steps we should take on the revenue side. Let me be clear. Closing the tax gap is not about raising taxes on anyone. It is simply collecting taxes that are already due and owed.

I want to salute the Commissioner for the strides that he has made in addressing the tax gap, because he has moved on the enforcement side of the equation and moved aggressively. Frankly, I don't think we have given you the resources you need. I am especially troubled by the

CR that took $100 million away from you on the enforcement side. That to me is going in the wrong direction.

The tax gap is simply unfair to the vast majority of American taxpayers who pay what they owe. And I believe the vast majority of taxpayers do pay what they owe. But we have, unfortunately, some number out there, and it appears to be a growing number, that don't. And that is true on the corporate side as well.

To put a $345 billion annual tax gap in perspective, consider that it is almost $100 billion larger than the size of the deficit in 2006.

It is important to remember that the added burden placed on taxpayers from the tax gap is very real. The National Taxpayer Advocate, Nina Olson, in her report to Congress, wrote: "Compliant taxpayers pay a great deal of money each year to subsidize noncompliance by others. ... [E]ach household was effectively assessed an average "surtax" of about $2,680 to subsidize noncompliance [in 2001]. That is not a burden we should expect our nation's taxpayers to bear lightly."

That is her conclusion, and I agree with it entirely.

To close the tax gap, we need to improve reporting and withholding requirements. We know that taxpayer compliance improves dramatically with increased reporting and withholding. For example, according to the IRS, for income that is subject to substantial reporting and withholding requirements – such as wages and salaries, we see a 99 percent compliance rate. When reporting requirements are in place, we see a 91 percent compliance rate. Where we have neither, we see the compliance rate dropping to below 50 percent.

So that is one part of the way forward – increased reporting. The other way is through better enforcement by the IRS. I am particularly concerned about enforcement that involves offshore tax havens. I used to be a Tax Commissioner. I have gone after these myself in my career. I have seen how incredibly lucrative it can be. For six years, I was Tax Commissioner for the State of North Dakota, four of those years I was Chairman of the multi-state Tax Commission. I dealt with this in not only a North Dakota context, but on behalf of about 20 states. I personally reviewed the records of many large multi-nationals and I saw how much is hemorrhaging because of the games that are being played.

I have showed this now famous, or infamous, building down in the Cayman Islands. This very modest building is the home to 12,000 companies, all of them claiming to be doing business out of this building. It is a very modest building. It is amazing how many companies can do business out of there. Of course, they are not doing business out of there. They are engaged in, for the most part, a giant tax scam. Those are the kind of things we simply can't permit to continue.

So with that, I look forward to the testimony of the Commissioner. And I again want to commend him publicly for the leadership he has provided there.