



Highlights of [GAO-08-703SP](#), a CBO, GAO and JCT forum

Why CBO, GAO and JCT Convened This Forum

The tax gap—the difference between the tax amounts taxpayers pay voluntarily and on time and what they should pay under the law—has been a long-standing problem in spite of many efforts to reduce it. When some taxpayers fail to comply, the burden of funding the nation's commitments falls more heavily on compliant taxpayers. Reducing the tax gap would help improve the nation's fiscal stability. For example, each 1 percent reduction in the net tax gap would likely yield \$3 billion annually. Most recently, the Internal Revenue Service (IRS) estimated it would recover \$55 billion of this gap, resulting in a net 2001 tax gap of \$290 billion.

The Congressional Budget Office (CBO), GAO, and the Joint Committee on Taxation (JCT) convened this forum on September 6, 2007, to discuss tax compliance and the options to close the tax gap. Participants were a select group of individuals drawn from the federal tax policy community and state revenue offices. This forum was designed for the participants to discuss these issues openly and without individual attribution in order to facilitate a rich and substantive discussion. Therefore, comments expressed do not necessarily represent the views of any one participant or the organizations that these participants represent, including CBO, GAO and JCT.

To view the full product, including the scope and methodology, click on [GAO-08-703SP](#). For more information, contact CBO, Thomas Woodward at (202) 226-2687 or TomW@cbo.gov; GAO, Michael Brostek at (202)512-9110 or brostekm@gao.gov; JCT, Edward D. Kleinbard at (202) 225-3621 or Edward.Kleinbard@mail.house.gov.

HIGHLIGHTS OF A JOINT FORUM ON TAX COMPLIANCE

Options for Improvement and Their Budgetary Potential

What Participants Said

Forum participants discussed numerous areas relating to the tax gap and gave suggestions for what types of approaches and actions might be effective in bridging the tax gap. Specifically the forum focused on the extent of noncompliance and the accuracy of the tax gap estimates; the extent to which enforcement actions, taxpayers service and tax code simplification might increase the compliance rate; and the most important initiatives the Congress and IRS could take to help close the tax gap.

As might be expected in a forum of this nature, the discussions included a mix of ideas that had been previously raised and newer ideas for helping IRS close the tax gap. The following are highlights which stood out from these discussions:

- Although valuable, tax gap estimates have limitations and serious efforts to reduce the tax gap should not be delayed while waiting for more precise estimates
- The IRS enforcement strategy should focus on large entities regardless of the type – S-corporations, C-corporations, partnerships or large sole proprietorships.
- IRS workforce challenges may have affected the quality of IRS's audits.
- Improvements to compliance may come from partnering with the states to share more data.
- Little data exist to show that taxpayer services increase voluntary compliance with the tax laws.
- Many Americans are not directly affected by tax code complexity because they are insulated from such complexity, at least somewhat, by either paid preparers or through the use of tax preparation software.

Participants also discussed the most important initiatives to undertake to reduce the tax gap. Some participants suggested increasing information reporting by enacting a proposal in the 2008 and 2009 President's budget that requires information reporting on merchant payment card reimbursements. Other participants recognized pilot compliance programs at the state level that have been effective in reducing noncompliance. For example, one state sent letters to taxpayers who were suspected in engaging in unlawful activities and offered the taxpayers a way to avoid penalties by filing amended returns and paying the taxes due. In most cases, taxpayers filed amended returns thus reducing the state's caseload. Furthermore the state was able to increase its revenue collected by \$1.4 billion. Finally, participants also noted that providing incentives to improve compliance and extending or eliminating the statute of limitations on enforcement actions would help IRS improve compliance.