Chairman's Statement
Senator Tom Coburn, M.D. (R-OK)
"Deconstructing the Tax Code: Uncollected Taxes and Issues of Transparency"

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As anyone knows who has ever barely made it to the post office in time on April 15th, the tax code can be a nightmare. President Bush has called it "a complicated mess." Riddled with exemptions, credits and deductions, the United States has the most complex tax system in the world. In many ways, the tax code is designed to strengthen our economy by its incentives such as encouraging small businesses to thrive by raising expensing limitations, and helping those who have decided to return to school through education tax credits.

In other ways, however, because of its inherent complexity, the tax code is difficult for Americans to understand. We have a whole industry of professionals for hire to help you file your returns. Some people have used this complexity to their advantage and cheated the system. Others—which I believe make up the majority of taxpayers—are trying to do the right thing but may fail to accurately file a return and what deductions or credits they are eligible or ineligible to claim.

Today we are here to talk about several important issues relating to the transparency of our tax system. Increased transparency means better data, recordkeeping and reporting about uncollected taxes. You cannot treat a disease until you diagnose it.

The gap between revenues that should have been collected and those that actually were is known as the "tax gap." According to the Internal Revenue Service's most recent estimate, the tax gap was $345 billion for tax year 2001. Everyone wants the tax gap closed--we can't afford it with a $550 billion deficit--we are mortgaging our children's future. If we closed it today, we would eliminate the deficit in less than two years. We don't know the size of, scope of, and reasons for the problem. Either the IRS must find a way to develop a more precise picture of where money is being lost; or Congress better get moving on fundamentally revamping the tax code.

I believe the biggest rate limiting step here is uncovering motive. IRS can't distinguish who is intentionally evading paying taxes versus those who unintentionally underreport or misreport their taxes. The "fix" we invest in is entirely dependent upon knowing how much of our problem is intentional—that is an enforcement problem--, and how much is unintentional, where the solution is education and simplification.

One proposed solution is to require securities brokerage firms or mutual finds to track and report the adjusted basis a taxpayer has in his or her stock, bond, and mutual fund investments to both the IRS and the taxpayer. Some have suggested this could save as much as $25 billion a year; IRS estimates it could save around $8 billion annually. Some argue it's too burdensome on industry, but others say many firms already have this information, and reporting it to the IRS wouldn't be too hard. I'm eager to discuss the idea more with our witnesses.

Last October, IRS reported before this Subcommittee that it had estimated the tax gap to be somewhere within the range of $311 and $353 billion for the 2001 tax year. Unfortunately, last October, four-year old data was the most recent data we had. Today, *revised four-year old data* is the most recent we have. In 2006, IRS came out with its revised estimate, which put a price tag on the 2001 tax year to be $345 billion. Until this morning, the IRS had no plan to regularly measure compliance.

The IRS hopes to eventually recover $55 billion in late payments and taxes, bringing the net tax gap down to $290 billion for tax year 2001, but the Treasury Inspector General for Tax Administration (TIGTA) questioned this figure. The IG says that because IRS currently does not correlate either type of payment to the applicable tax year, IRS will be unable to determine whether the $55 billion is ever collected. How can we insure that $55 billion will be collected against the 2001 tax gap if we don't assign money as it comes in to its applicable tax year?

The IRS balances its approach to tax gap reduction by focusing on both prevention – that is, improving taxpayer services – and enforcement after the fact. I am not convinced that this is as thorough a plan as a $345 billion tax gap deserves. At our last hearing we learned that there are no official long-term compliance goals driving IRS' efforts, other than to continue to serve taxpayers and enforce the tax code through audits and examinations. There has been ample pressure by Congress on the IRS to make a plan to close the tax gap, yet there is still no clear plan. While tax reform may be on the horizon, we still must be good stewards of our existing resources under our existing tax regime, as oppressive as it might be.

I am encouraged that the IRS has taken Congress' oversight seriously and is planning a strategic approach to reducing the tax gap, including plans to regularly measure compliance. I am even more pleased that the Treasury Department is studying the report of the President's Advisory Panel on Tax Reform and is considering options for simplification of the tax system.

Another issue we are here to discuss today is the transparency of tax preferences. As we go forward to make more information public on the categories and amounts of tax deductions benefiting certain types of filers, we need to obey important privacy laws.

We have a lot to cover today, so I thank you all ahead of time for your patience. I want to thank our witnesses for their time and preparation, and thank Senator Carper and Senator Lautenberg for their help in pushing for this hearing.