Treasury Inspector General for Tax Administration

ADDITIONAL ACTIONS ARE NEEDED TO EFFECTIVELY ADDRESS THE TAX GAP

Issued on April 23, 2008

Highlights

Highlights of Report Number: 2008-30-094 to the Deputy Commissioner for Operations Support and the Deputy Commissioner for Services and Enforcement.

IMPACT ON TAXPAYERS

The tax gap, estimated at $345 billion for Tax Year 2001, is the difference between taxes that are legally owed and taxes that are paid on time. Taxpayers who do not voluntarily pay their share of taxes create unfair burden on honest taxpayers and diminish the public's respect for the tax system.

The Department of the Treasury and the Internal Revenue Service (IRS) developed a multiyear strategy for improving compliance and reducing the tax gap. However, the strategy is dependent on overcoming several high-risk challenges.

WHY TIGTA DID THE AUDIT

This audit was initiated because of ongoing Congressional interest in the area. While the United States has one of the highest tax compliance rates in the world at 83.7 percent, each percentage point of noncompliance costs the Federal Government approximately $21 billion in lost revenue. The objective of our audit was to determine the progress of the IRS' plans and actions taken to reduce the tax gap.

WHAT TIGTA FOUND

In August 2007, the Department of the Treasury and the IRS issued a report entitled *Reducing the Federal Tax Gap: A Report on Improving Voluntary Compliance*. The report details the steps being taken by the IRS, as well as those under development, to address key elements of the tax gap.

The current IRS tax gap strategy is significantly more comprehensive and detailed than previous efforts. The strategy identifies seven components that support a multifaceted approach to reducing the tax gap: Reduce Opportunities for Evasion, Make a Multiyear Commitment to Research, Continue Improvements in Information Technology, Improve Compliance Activities, Enhance Taxpayer Service, Reform and Simplify the Tax Law, and Coordinate With Partners and Stakeholders.

The long-term success of the strategy will in large part be dependent on addressing several risk factors, some of which are beyond the control of the IRS. For example, there are proposals for additional information reporting that are dependent on legislative action. Also, additional compliance staffing and resources for research require budget increases. Finally, while the IRS is making progress in addressing concerns with management of the highly complex, multibillion-dollar Business Systems Management program, it remains a top management challenge.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report. However, TIGTA discussed the issues contained in the report with appropriate IRS management officials and incorporated their viewpoints where appropriate.

READ THE FULL REPORT

To view the report, including the scope and methodology, go to:

http://www.treas.gov/tigta/auditreports/2008reports/200830094fr.pdf.