



For Immediate Release  
July 16, 2008

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

## GAO FINDS IRS STILL HAS WEAKNESSES IN UNPAID TAX COLLECTION

*IRS has not made enough progress on GAO recommendations to close tax gap*

*Washington, DC* – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) today pressured the Internal Revenue Service (IRS) to move faster to eliminate material weaknesses in its efforts to collect billions of dollars in unpaid tax debts. The Senators’ statements responded to a new GAO report that found the IRS has not yet adopted agency-wide cost-benefit data analysis and related performance measures that the GAO recommended in the past. The report said the reforms could help resolve the annual tax gap, or the difference between the taxes legally owed and the taxes timely paid each year. The Senators sent a letter to GAO requesting a follow-up report on legislative and administrative options to help the IRS efficiently collect more unpaid taxes.

**“The sooner we can close the tax gap, the better,”** said Baucus. **“It’s a matter of fairness to hard-working, law-abiding taxpayers who are forced to pick up a bigger burden because others don’t pay what they owe. Collecting unpaid taxes doesn’t raise taxes on anyone, but does make our system more just. The GAO has identified the collection of unpaid debt as a serious problem at the IRS since 1990, and has made reasonable recommendations that the IRS has had plenty of time to implement. The American taxpayer can’t afford to wait while the IRS drags its feet. I challenge the IRS to take a fresh look at its collection function and tell me what it needs. I’ve asked the GAO to follow up on today’s report and explore administrative and legislative options to close the underpaid portion of the tax gap.”**

**“The GAO has been reporting on IRS collection issues for more than 10 years,”** Grassley said. **“This report, like all the others, presents some troubling facts. For fiscal years 2002 through 2007, while collections increased by \$10 billion, unpaid debts increased by the same amount. During this same time, the IRS wrote off from 31 percent to 46 percent of unpaid debts because it essentially ran out of time to collect these debts. For fiscal year 2007, the IRS classified only \$100 billion out of \$290 billion of unpaid tax debts as collectible. Of the \$100 billion potentially collectible debt, the IRS is actively pursuing only \$25 billion with \$2.5 billion being shelved because of a claimed lack of resources. The longer a debt is outstanding, the less likely it will be collected. Any business person can tell you that. Knowing that the IRS isn’t going to collect the debt also gives tax cheats additional incentives not to pay. Those not paying their taxes eventually cause tax increases for those who do. This report is another piece of evidence that the private debt collection program should have a chance to work.”**

Since 1990, the collection of unpaid taxes has been on GAO's list of high-risk areas needing congressional action. GAO said that the IRS still has inadequate performance measures, which hamper the agency's ability to build an effective unpaid tax collection strategy. Some of the current strategies may even encourage writing off unpaid tax instead of collecting it. The lack of unified performance measures, combined with the way collection activities are spread across multiple operating divisions, can lead to inefficiencies in the collection process. Though the IRS has added a new computer modeling system to track where resources are likely to yield the best results, the system is not yet agency wide. Other new programs to help collect unpaid taxes are not scheduled to be implemented until 2009 or later.

In fiscal year 2007, even after the IRS collected \$43 billion in unpaid taxes, the IRS still had a tax debt "inventory" of about \$300 billion. Out of that sum of unpaid taxes, the IRS only expects to be able to collect one third, or \$100 billion. When all is said and done, over half of the tax debt inventory that the IRS resolves will come from writing off the tax or being prevented from collecting it under the 10 year statute of limitations.

The full text of the GAO report can be found at <http://www.gao.gov/new.items/d08728.pdf>. A copy of the Senators' letter is attached.

###