



U.S. SENATE COMMITTEE ON

Finance

SENATOR CHUCK GRASSLEY, OF IOWA - CHAIRMAN

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Grassley Looks for Ways to Ease Burden on Honest Taxpayers

WASHINGTON – Sen. Chuck Grassley, chairman of the Committee on Finance, today said the federal government could meet many needs and ease the burden on honest taxpayers by collecting the estimated \$310.6 billion that taxpayers owe and have not paid.

“Due to a number of factors, especially the war and increased spending, our nation is looking at deficits,” Grassley said. “At the same time the White House and many in Congress don’t want to increase the tax burden on the honest citizens who pay their fair share of taxes. Therefore, we have to find ways to close the tax gap and bring money into the Treasury and fairness to the tax code.

“We have to retain the proper balance of service and enforcement coupled with a respect for taxpayers’ rights. To achieve that, it’s clear that we have to work smarter and more efficiently. We have to target limited resources where they’ll do the most good.”

Grassley convened a hearing with experts who testified that the tax gap as of tax year 2001 was estimated at \$310.6 billion, likely an understatement. Individuals, small business owners, and large companies all contribute to the tax gap via failure to file tax forms, use of tax shelters, under-reporting income, and other factors.

Testimony from the Government Accountability Office, formerly the General Accounting Office, showed that thousands of businesses seeking to bring in foreign workers owe billions in taxes. In addition, tens of thousands of businesses that sponsor foreign workers are not even filing tax returns or are filing incomplete tax returns. GAO suggested that tax administration may benefit from the common-sense requirement that businesses and individuals seeking to sponsor an immigrant must demonstrate that they are current in their tax obligations.

“It’s unbelievable,” Grassley said. “Tens of thousands of businesses get away without bothering to file tax returns, even when they report taxable income to another government agency. The message here is, it’s okay to cheat because odds are you won’t get caught. You can tell immigration folks one thing and the tax man something else. I hope the IRS will follow up and make sure businesses and individuals seeking to sponsor immigrant employees are current in their tax obligations. Congress also needs to take steps to help the IRS with information sharing.

“This is the second time in a week that we’ve seen what happens when government agencies don’t communicate. Last week, it was one agency hauling one of the big accounting firms into the grand jury room while a related department was handing that same company millions of dollars in taxpayer-funded contracts. With a \$310.6 billion tax gap, the IRS has to get more creative in its enforcement. A good start is talking with other agencies that collect key tax information. My patience with bad interagency communication is wearing thin.”

An anonymous whistleblower testified as to the newest tax shelters that are being promoted. He also detailed the enormous difficulties in his efforts to provide information to the IRS about tax shelters, promoters and participants. For example, he tried to alert the IRS to problems at Enron in 1999 and was ignored. This bolsters the argument for Grassley’s legislation beefing up the IRS’ treatment of valuable whistleblower information. The Senate approved his bill in May.

Robert M. Morgenthau, district attorney of New York County, testified that the IRS receives significant information on many overseas accounts sheltering individual income from U.S. taxes but does little or nothing to target those accounts. He also described tax and money laundering violations that are connected to terrorism financing, and the difficulty of tracking funds overseas.

Debbie Langsea from the California Franchise Tax Board testified about the most recent efforts of California to address the income tax gap in that state. Among the states, California has been one of the most aggressive at looking for and trying new approaches and ideas in dealing with the tax gap.

A representative of the U.S. Patent and Trademark Office testified about the rising issuance of patent protections for potentially abusive tax shelters, even as the IRS tries to clamp down on such activity. One individual, for instance, was granted a patent last August for an “invention” to allow wealthy executives to shield income and estate taxes through deferred-compensation packages.

“The testimony highlighted how simple things like requiring a taxpayer to confirm that he’s current on his tax obligations will pay off by helping to close the tax gap and potentially lighten the tax burden on all honest taxpayers,” Grassley said. “The IRS has to be thinking of new and creative ways to bridge the tax gap. The old ways and old thinking aren’t getting the job done.”