

Defining the Tax Gap

• Difference between tax that should be paid for a given year and amount actually paid voluntarily on a timely basis

• Annual amount of noncompliance with our tax laws in dollar terms

• Does not reflect taxes owed on income from illegal activities

Components of the Tax Gap



• Non-filing – tax not paid on time by taxpayers who filed late or not at all

• **Underreporting** – timely-filed returns with understated income or over-stated deductions or credits

• **Underpayment** – failure to pay on time all of the reported tax liability

Tax Gap Data

Tax Gap Total = \$345 billion

- Nonfiling = \$27 billion
- Underpayments = \$33 billion
- Underreporting = \$285 billion

Net Tax Gap = \$290 billion after collections and late payments







- Replaced 15-year old data
- 46,000 individual returns from tax year 2001
- 3,000 returns accepted as filed
- 2,000 correspondence exams
- 41,000 face-to-face exams from Oct 2002 to Sept 2004





- Update Tax Gap estimates
- Recognize the general level of noncompliance
- Improve audit selection criteria
- Understand taxpayer behavior

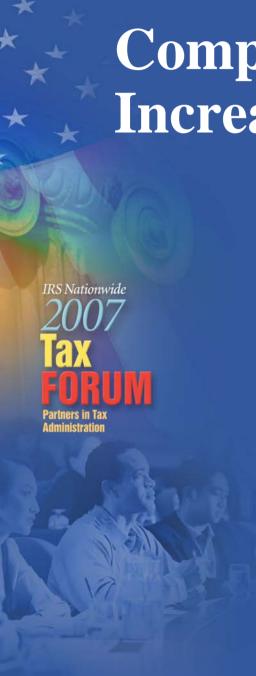


• Reflects increase in S-Corporation filing

• 5,000 Form 1120S returns for TY 03 and TY 04

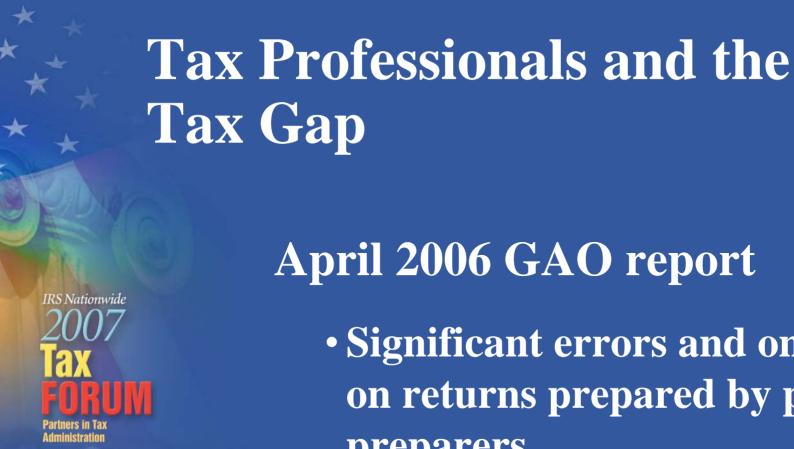
• Over 800 examinations complete

 Updates individual tax gap figures and identifies additional compliance issues



Compliance Priorities for Increased Enforcement Results

- Promoters and participants in abusive tax avoidance transactions
- High income high risk taxpayers
- High income non-filers
- Unreported income
- Employment tax noncompliance



- Significant errors and omissions on returns prepared by paid
 - preparers
- 10 out of 19 excluded side income





- Revamping audit selection formulas
- Increasing enforcement actions for noncompliance
- Working with Treasury on legislative proposals
- Educating small business and selfemployed taxpayers on their tax obligations







• Learn about compliance behavior for new groups of taxpayers

Research more than one tax year

• IRS partners with external stakeholders





- Virtual Small Business Tax Workshop DVD 10-lesson interactive video
- Small Business Resource Guide CD-ROM
- Tax Calendar for Small Businesses and Self-Employed
- Tax Talk Today Monthly Web cast for tax professionals
- E-News for Tax Professionals and E-News for Small Businesses Weekly electronic newsletters

