

INTERNAL REVENUE SERVICE ADVISORY COUNCIL

1111 Constitution Avenue, NW, Room 7563, Washington, D.C. 20224

February 28, 2007

Mr. Paul B. Jones
Chairman
IRS Oversight Board
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Chairman Jones:

In connection with its annual public meeting on March 7, 2007, the IRS Oversight Board has invited various stakeholder groups to participate in one of two panel discussions on the topic: *What can my organization do differently than it has in the past to reduce the tax gap?*

The Internal Revenue Service Advisory Council (IRSAC) is pleased to be able to participate in this discussion. Vice-Chairman Margaret A. Roark will represent IRSAC on one of the panels. We appreciate the opportunity to provide this written statement as well.

The Oversight Board selected this year's topic to emphasize that reduction of the tax gap is not just the responsibility of the IRS, but of all organizations that are engaged in tax administration. This emphasis on partnership is a fundamental part of the operating philosophy of IRSAC, which has been working with the IRS to improve efficient tax administration since its predecessor organization, the Commissioner's Advisory Group (CAG) was first established in 1953. For many years, this Council has been composed of private citizens with diverse backgrounds and significant expertise in tax matters.

Review of the annual reports issued by IRSAC over the last three to four years will clearly show that reduction of the tax gap has been a continuing area of interest. Numerous suggestions have been discussed by IRS personnel and IRSAC members, and many of those ideas have now been translated into legislative proposals by the Department of the Treasury. In raising and/or evaluating various proposals, IRSAC has held that improving compliance requires both a carrot and a stick. Although new proposals may surface and old ones may sink, this core belief is not likely to change.

To effectively reduce the tax gap, it is necessary to understand its components based on reliable data. Precise quantification may not be possible, cost effective, or necessary; however, research-based data beats anecdotal evidence. The 2001 National Research Program provided much of

the information on which current estimates of the tax gap are based. The IRS has recognized that ongoing research facilitates the development of effective strategies to improve voluntary compliance, combat specific areas of noncompliance, and allocate its resources effectively.

At the request of the IRS, IRSAC has added a subgroup whose focus will be analysis of tax gap data. Composed of academics and other tax research experts, this subgroup represents a significant addition to IRSAC operations. Though its existence is certainly something our organization has done differently to reduce the tax gap, its placement within IRSAC underscores our continuing commitment to communication and cooperation between private individuals with tax expertise and the IRS.

I would like to take this opportunity to point out two areas of concern that have been raised by many of IRSAC's members, though both are outside of our direct reach. The first is the issue of tax code complexity, which may or may not contribute to the tax gap, but certainly undermines efficient tax administration. Significant government and private resources could be freed by simplification, and our members generally believe that this is a goal worth pursuing. The enactment of last-minute, retroactive legislation is particularly disruptive.

Finally, I will echo last year's IRSAC Chair in expressing the belief of our members that IRS success depends on adequate funding of both its service and enforcement efforts—as well as its ongoing efforts to modernize and to prepare for the future.

On behalf of the members of IRSAC, I appreciate the opportunity to have provided this input to the Oversight Board.

A handwritten signature in black ink, reading "CB Peinhardt". The signature is written in a cursive, flowing style.

Cathy Brown Peinhardt
Chairman