

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Finance Committee Hearing on How to Solve the Tax Gap
with Government Accountability Office Comptroller General David Walker
April 14, 2005**

Thank you Mr. Chairman, and I thank the Chairman and the ranking member for holding this hearing. I think this is very important. As somebody who has a budget responsibility for our colleagues, I have long been persuaded that the tax gap is one of the opportunities to close the deficit without cutting spending, without raising taxes.

I think this is an opportunity for us to make real progress on the deficit. Obviously, we also have to restrain spending. We have also got to find other ways to close this tremendous gap that we have – budget deficit that is advertised at \$400 billion, but really what is added to the debt is not \$400 billion. I think a lot of people see the deficit and say, ‘It’s \$400 billion. That’s what’s being added to the debt.’ No, what’s being added to the debt is closer to \$600 billion, and the difference is the money that is being taken from various trust funds that have to be repaid and don’t get included in the calculation of the deficit.

So turning to the tax gap, this estimate of \$312 to \$353 billion, which is an initial estimate, a re-estimate, is still leaving out lots of things. As I understand it, this is still based on the corporate side on data from 1988, updated to 2001. Based on my contacts with the accounting community, they believe the environment has changed substantially in that period, and that in fact the tax gap in the corporate area is probably much larger than these estimates.

In addition, as I understand it, this does not include illegal activity. This is what is owed by people not being paid, although I see some indication that this includes overstated deductions or credits, tax shelter investors, skimmers, moonlighters – I’m not sure what skimmers refer to; I’ll be interested to hear from the Commissioner what all these terms relate to.

I heard on Tuesday of this week former Commissioner of the IRS Donald Alexander estimated the tax gap is more likely in the \$400 billion range because current estimates do not fully account for nonfilers, the underground economy, and certain other illegal activity. My own belief is that is probably a greater likelihood. I think the greater likelihood is that this estimate understates the tax gap and as we get more refined data we’ll find it is even larger which makes the imperative of moving forward even greater.

With that, Mr. Comptroller General, I want to thank you for the energy and effort you have put into alerting the American people of the fiscal imbalances facing the country, not only in the immediate term but in the longer term, the demographic tsunami that’s coming at us, the doubling of the people eligible for Social Security and Medicare, combined with our budget deficits, combined with our trade deficits that mean we as a nation are borrowing more and more money not only from ourselves but borrowing it from abroad as well and that makes us increasingly vulnerable. I want to salute you for really taking a leadership role.

And it’s not your responsibility to close the tax gap. Your responsibility is to alert us and to alert the nation about the nature of the tax gap and to make recommendations on how we can take action to close it. And so I very much appreciate what you are doing in that regard.

Let me ask you this. I have become more and more convinced as I look at this that we will never make dramatic progress in closing the tax gap absent serious, systemic tax reform. Can you give us some idea, you’ve spent hundreds of hours on this subject, what your conclusions are with respect to the need for tax reform as a means of making substantial progress?

Walker Answer: I think one of the questions you are going to have to deal with is how to streamline and simplify the tax code as it relates to individual income taxes -- I’ll start off with that – to where you may end up having a flatter, not a flat income tax, but also less tax preferences. I think also that you are going to have to consider in time, given the change in the nature of the economy, given the change in the distribution of wealth and income in this country, I think you are going to have to think at some point in time about consumption based taxes while dealing with the regressivity

issue. The fact of the matter is that the world has changed dramatically since 1988, especially on the corporate side. We are truly in a global economy. We are competing on a global basis. We are not an island. We may be the world's only superpower, but we can't go it alone. There are other people coming up. And so the fact is I think we're going to have to look outside the box, not just try to tinker around the edges but maybe reconsider on what basis we're taxing, and what we're giving preferences to at the same point and time.