



# Committee On Finance

Max Baucus, Ranking Member

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Contact: Carol Guthrie  
202-224-6769

**Statement of Senator Max Baucus  
“A Closer Look at the Size and Sources of the Tax Gap”  
Hearing before the Subcommittee on Taxation and IRS  
Oversight of the Committee on Finance**

Who can afford to lose more than \$10,000 a second? No one can. But with each passing second, the Federal Government fails to collect another \$10,000 that it is legally owed. With each passing second, the tax gap grows by \$10,940.

Using 2001 data, the IRS estimates the annual tax gap to be \$345 billion. The tax gap is the difference between the taxes legally owed and the taxes timely paid. At this rate, the cumulative tax gap has grown by \$2 trillion since 2001.

It is time to reverse the growth of the tax gap. By collecting the taxes that already are legally owed, the Government could reduce the budget deficit and our nation's dependence on foreign borrowing, without raising taxes on anyone.

Closing the tax gap makes good business sense. And it makes good common sense. Whenever one person who owes taxes fails to pay, honest taxpayers have to make up the difference. Americans already face increasing health care costs, tuition, and gas prices. We should do what we can to minimize the tax burden on those who voluntarily pay what they owe.

The tax gap has been on my radar screen for years. I have proposed legislation to shut down abusive tax shelters, beef up enforcement against offshore financial accounts that conceal taxable income, and establish quality standards on paid tax preparers.

In 2004, when the IRS reported a voluntary compliance rate of 85 percent, I challenged the IRS to increase that rate to 90 percent by 2010. Instead, the latest IRS figures report a voluntary compliance rate of 83.7 percent. The tax gap is headed in the wrong direction.

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Many factors contribute to the tax gap. Some don't file any tax return at all. Others report only part of their income. Others overstate their expenses. Many don't pay what they owe.

The causes of the tax gap are multi-faceted. The solution needs to be, as well.

Developing a tax gap plan would be a good start. The American public has a reasonable expectation that our nation's tax laws are being administered fairly, efficiently, and effectively.

Former IRS Commissioner and Chief Counsel Sheldon Cohen observed: "Law is not what the Congress passes, law is what you are willing to enforce. Law without enforcement might just as well never be enacted."

Farmers in Montana know the importance of a plan. They don't walk out into the middle of a field, scatter some seed, close their eyes, and hope for the best. Instead, they prepare the soil, plant the seed, fend off pests and weeds, and watch the crops carefully so that they know just the right time for harvest. They have a plan.

Like Montana's farmers, the IRS needs a credible and comprehensive plan to close the tax gap. The plan should include baselines, goals, benchmarks, and measures. Several GAO and Treasury Inspector General for Tax Administration reports have chided the IRS for its inability to measure results and track progress.

At his confirmation hearing in March of 2003, I asked nominee Mark Everson, now the IRS Commissioner, what concrete steps he planned to take to close the tax gap. I asked him to report to the Finance Committee on benchmarks, including audit rates, modernization, and enforcement data. I have yet to see those reports.

In February of 2006, I asked Secretary Snow at the IRS budget hearing for a plan within 30 days. When he resigned in June, I still had not seen that plan.

At the Committee's corporate tax gap hearing in June, I asked Commissioner Everson for a credible plan by September 30 to close the tax gap. Commissioner Everson agreed to provide one.

During Henry Paulson's June 27, 2006, confirmation hearing to be Secretary of the Treasury, I asked him for a credible tax gap plan by September 30. He would not commit to submit one.

On July 13, I made the same request of Eric Solomon during his confirmation hearing to become Assistant Secretary of the Treasury for Tax Policy, but he was unable to make that commitment.

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After careful consideration, I decided to place a hold on the Solomon nomination until I receive a commitment from Treasury that it will work with the IRS to provide a credible tax gap plan by September 30, 2006.

It is time to stop talking about how serious the tax gap is. It is time to do something about it. It is time for the administration to produce a credible and comprehensive plan for combating the tax gap.

The administration must respond regularly to tough challenges. Because many of them are unexpected and unpredictable, it can be difficult to plan for them.

The tax gap is different. It didn't pop up overnight. The administration has the opportunity to develop a thoughtful and responsible plan. The administration has an obligation to develop such a plan.

Today, this subcommittee will hear testimony from Ray Wagner, the Chairman of the IRS Oversight Board. Earlier this year, the Board proposed a six-pronged approach to closing the tax gap. The IRS Oversight Board is part of the Treasury family.

The Board recommended tax code simplification, better information reporting, enhanced customer service and improved technology, greater focus on research, partnering between the IRS and tax professionals, and more emphasis on personal integrity. These ideas have merit and should be considered seriously.

Others, including the Joint Committee on Taxation, the National Taxpayer Advocate, the Government Accountability Office, and the Treasury Inspector General for Tax Administration, as well as the professional tax community, have recommended equally credible ideas we must not overlook that could serve as the foundation for a comprehensive plan.

During the time of this hearing, the tax gap will grow by another \$60 million. We can't stop the clock. We must stop the tax gap. A tax gap plan would be a good place to start. We simply cannot afford to keep losing \$10,000 a second.

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