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Opening Statement of Sen. Chuck Grassley  
Hearing, “Examining the Administration's Plan for Reducing the Tax Gap: What are the Goals,  
Benchmarks and Timetables?”  
Wednesday, April 18, 2007

I commend the Chairman for holding today’s hearing on the tax gap. While the tax gap is an important issue, it is certainly not a new issue. We have had a tax gap problem in this administration, the previous administration and my guess is back to when we first had an income tax.

According to the GAO, the voluntary compliance rate has ranged from around 81 percent to 84 percent over the past three decades. In the Finance Committee, we take the tax gap very seriously, because it’s not fair to the vast majority of taxpayers who pay their taxes on time.

But while this Committee has its feet on the ground on this issue, I’m worried that some members have their head in the clouds when it comes to the tax gap. Some members view the tax gap as money in the pocket to spend on favorite proposals. Nothing could be further from the truth. Closing the tax gap is a difficult and grinding process.

We have had several hearings when I was Chairman to examine the size, sources, and solutions to the tax gap, and we have enacted many steps to reduce the tax gap, such as reducing abuse in charitable donations of cars and intellectual property; increased penalties and reporting requirements; expanding the IRS’ whistleblower program; and authorizing the private debt collection program.

But we need to do more. Dozens of factors contribute to the tax gap and dozens of solutions are needed to close it. I am completely in support of taking appropriate measures to close the tax gap – and I will work aggressively toward enacting legislative changes to help close it -- but these steps have to be done with care in order to be effective. There are no easy solutions. There seems to be a general consensus that potential solutions to the tax gap fall into four categories:

- (1) additional and more efficient enforcement by the IRS;
- (2) additional legislative or regulatory tools for the IRS, such as information reporting and withholding;
- (3) changes to our tax base – as well as Treasury regulations and IRS guidance – that reduce the complexity of our current system; and

(4) improved service by the IRS to taxpayers; and I would add a new one since our hearing last week:

(5) ensuring that paid tax preparers provide taxpayers honest and informed assistance in filing their taxes.

I would give my colleagues an observation from a poet, T.S. Eliot, who said, “It is impossible to design a system so perfect that no one needs to be good.” Mr. Chairman, I think that sentence captures part of the challenge with the tax gap. The term “good” here, as I apply it, has two meanings. One notion of “good” taxpayers is taxpayers who intend to comply with the system. The second notion of “good” is taxpayers with the knowledge to competently deal with our complex tax system. Those two groups of taxpayers represent 84 percent of the dollars due and owing. As the Treasury Department’s work shows, part of the tax gap problem arises from willful non-compliance. Part of the problem arises from unintended non-compliance – i.e., confusion or the current system’s unwieldy complexity.

Of the taxpayers who make up the 16 percent of noncompliance, some do so willingly. There may not be a “perfect” system that can catch every willful noncomplier. Another portion of that 16 percent of dollars that is not compliant are not willful in their noncompliance. And to add to the difficulty, you may often have a situation where a taxpayer is very compliant in one area of their return but either willfully or ignorantly noncompliant in another part of their return. So it’s important to remember that the 16 percent noncompliance rate doesn’t translate into 16 percent of taxpayers; it may represent a much larger group of taxpayers who are a mix of compliant and noncompliant. A tax system designed to perfection, viewing it solely from the standpoint of the “perfect” rate of compliance, could undermine the efforts of the good folks who do now comply or mostly comply. This balance is a key consideration for the tax-writing committees.

We’re accountable to the people who must deal with the changes to the tax system. We’re right to insist on a level playing field – that is, ensuring that complying taxpayers are not subsidizing non-compliant taxpayers. At the same time, we must make sure that the system is workable for the vast majority who do comply.

Lastly, I would only repeat a comment made by the Chairman, and echoed in the title of this hearing. I think it is important that we start getting measures for success in closing the tax gap. I know all the comments about uncertainties and difficulties but we will never get to a better place regarding the tax gap if we don’t have the focus of reasonable achievements and objectives. I commend the administration for its efforts in the budget for dealing with the tax gap – both in terms of IRS funding and changes in the tax law. I think they are meaningful steps. But just that, steps. I hope this hearing will provide a better picture of what goals these steps, and future steps, can lead to.