



Committee On Finance

Max Baucus, Ranking Member

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BAUCUS SAYS IRS NEEDS BETTER HANDLE ON TAX GAP FACTS

New report from inspector general indicates agency cannot accurately determine annual loss; better information is vital to meet Baucus goal of 90 percent voluntary taxpayer compliance

Washington, DC – U.S. Senator Max Baucus (D-Mont.), Ranking Member of the Senate Finance Committee, today called on the IRS to determine more accurately the size of the annual tax gap, so that plans to close the chasm between taxes legally owed and taxes collected are rooted in reality and so that progress can be measured. A new report from the Treasury Inspector General for Tax Administration (TIGTA) concluded today that dated and incomplete information and questionable methodologies make it impossible for the agency to accurately estimate the tax gap or how many people are voluntarily complying with tax laws. Without this information, the report notes, the IRS cannot make its best effort to reach the 90 percent voluntary compliance rate Baucus has called for since April 2004.

“The IRS will have a hard time closing the tax gap as long as they don’t know what the tax gap really is,” said Baucus. **“Since this report indicates that the annual gap between taxes owed and taxes collected may be even more than \$345 billion, there’s really no more time for the IRS to waste.”**

Two years ago this month, Baucus challenged the IRS to achieve a 90 percent voluntary compliance rate by 2010. He estimated at the time that this would raise as much as \$100 billion each year without any tax increases at all. At a budget hearing on February 7 of this year, he called on Treasury Secretary John Snow to provide a plan within 30 days to close the tax gap. Snow has failed to provide any such plan to date. In today’s report, the Inspector General’s office said that it cannot determine whether it’s possible for the IRS to reach the Baucus compliance goal until the agency more accurately measures the size and causes of the overall tax gap and the state of voluntary compliance. The Inspector General found that sample sizes were cut and some findings may not be reliable, indicating that “substantial amounts are not included in the estimates provided in the tax gap map projections.” Even the amount the IRS claims it collects each year to narrow the tax gap is based on dated historical analyses. **The full findings of the Inspector General’s report can be found at http://www.treas.gov/tigta/oa_auditreports_fy06.shtml.**

“Two years ago at tax time, I laid out a very clear objective for the IRS, and now we hear there is still no clear path to the very basic goal of 90 percent voluntary compliance,” said Baucus. **“The IRS needs to do what it takes now to get the facts in order, and Secretary Snow needs to deliver his current plan to close the tax gap with no further delay.”**

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