



June 16, 2006

# Tax Gap Report

The latest information on America's growing tax gap from U.S. Senator Max Baucus (D-Mont.), Ranking Member, U.S. Senate Finance Committee

## BAUCUS CAUTIONS SENATE APPROPRIATORS: TAX GAP FIGHT REQUIRES BALANCED FUNDING FOR IRS TAXPAYER SERVICES, ENFORCEMENT

U.S. Senator Max Baucus (D-Mont.) today called on Senate appropriators to provide for a balance of service and enforcement by the Internal Revenue Service when determining that agency's Fiscal Year 2007 funding. In a letter to Senators Christopher Bond (R-Mo.) and Patty Murray (D-Wash.), Chair and Ranking Member of the relevant appropriations subcommittee, Baucus detailed a currently planned net decrease in IRS funding, and argued that funding decreases are likely to exacerbate the current \$345 billion "tax gap" – the annual gulf between taxes legally owed and taxes actually collected in a timely manner. **For the full text of Baucus's letter, please visit:**

<http://finance.senate.gov/sitepages/baucus.htm>



**"Taxpayer service gives taxpayers the opportunity to get their tax obligations right the first time, so expensive enforcement action is unnecessary. It is shortsighted to cut funding for service, or to increase enforcement funding at the expense of service,"** Baucus wrote. **"I [also] support a strong enforcement budget to close the \$345 billion tax gap that is not contingent on budget cap mechanisms triggered by complying with other Administration budget proposals."**

Baucus specifically called for funding to fight abusive domestic tax shelters and offshore tax schemes and to increase paid preparer oversight. He also expressed his hope for further Finance Committee hearings this year seeking solutions to close the tax gap.

### IRS FUNDING FACTS

*Administration's proposed FY07 IRS budget: \$10.726 billion*

*Funding remains flat from FY2006 budget*

*IRS Oversight Board budget recommendation: \$11.3 billion*

*Potential decrease in taxpayer service budget if new user fees not realized: \$84 million*

*Enforcement funding increase contingent on full funding of prior year baseline*

### ADDITIONAL TAX FUNDING ISSUES

Baucus's letter to Senate appropriators addressed other tax funding issues including:

- **The Taxpayer Advocate Service:** "The Advocate's independence can be curtailed through the IRS Commissioner's control over the Advocate's budget. I support language ... to curtail this institutional conflict and ensure the Advocate's independence."
- **IRS information technology:** "The IRS has not made good use of IT funding and its budget for IT work has been reduced steadily. IRS has been unsuccessful in implementing a new electronic fraud detection system database for the past two filing seasons. As a result, millions of questionable refunds will go unchallenged, further increasing the size of the tax gap."
- **United States Tax Court:** "The Tax Court is requesting funding for an additional presidentially-appointed judge and staff, plus an additional 15 positions to allow for a rapid expansion of staffing in anticipation of increased caseload resulting from expanded IRS enforcement efforts. Funding for staffing increases should be considered if the anticipated increase in caseload develops."

*Every year, \$345 billion in legally owed taxes go uncollected in the U.S. Closing that "tax gap" will significantly strengthen America's economy. Max Baucus has spearheaded efforts to reduce factors contributing to America's growing tax gap.*