



For Immediate Release  
July 16, 2009

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**BAUCUS, GRASSLEY CALL FOR FEDERAL-STATE COOPERATION  
IN IMPROVING TAX COMPLIANCE**

*GAO report suggests opportunities exist to enforce federal tax compliance  
through business licensing*

**Washington, DC** – Senate Finance Committee Chairman Max Baucus (D-Mont.) and Ranking Member Chuck Grassley (R-Iowa) commented today on a new Government Accountability Office (GAO) report recommending the Internal Revenue Service (IRS) consider expanding a program requiring taxpayers to demonstrate federal tax compliance before receiving a state business license. The Finance leaders requested the study to explore how coordination between the IRS and the states could enhance compliance and narrow the tax gap – \$345 billion annually in legally owed but unpaid tax dollars. The GAO identified an IRS arrangement with California as an example of how Federal-State cooperation can improve tax administration and noted opportunities for similar enforcement in other states.

**“This report confirms my initial thinking that we can improve tax compliance through better cooperation between the IRS and state licensing boards. Checking to ensure that taxpayers seeking a business license are up to date on their tax obligations is a common sense approach to improving tax compliance. These are taxes already legally owed, so it’s not raising taxes on anyone. Partnering with state authorities could begin to reduce the burden on honest taxpayers who shoulder the billions of legally-owed but unpaid dollars every year and help to fund priorities like health care,”** Baucus said. **“I am encouraged by the GAO’s findings and fully expect the IRS to follow up on recommendations to evaluate state licensing requirements and work with states to expand these arrangements as needed.”**

**“This program has made a big difference in compliance with federal employment tax obligations in California,”** Grassley said. **“It seems to have done so without costing a lot of money or taking up other state and federal resources. As the report recommends, it makes sense for the IRS to approach other states and spread the word about this idea. Taxpayers should pay what they owe, not a penny more or a penny less. It’s puzzling that this idea wasn’t included in the Treasury Department’s recently updated tax gap plan. I hope the department is pursuing every good option to collect taxes that are owed.”**

The GAO study found the IRS collected nearly \$7.4 million in employment taxes during 2006 and 2007 as a result of its collaboration with California. California requires that three types of businesses must show compliance with federal employment taxes before obtaining business licenses: farm labor contracting, garment manufacturing and car washing and polishing. The agency’s cost of data-sharing between the IRS and California to facilitate the arrangement was \$331,348, representing a 22:1 return on investment. The report notes the GAO contacted officials in every state and the District of Columbia and identified numerous opportunities to enforce federal tax compliance through business licensing arrangements.

The full report is available here: <http://www.gao.gov/new.items/d09569.pdf>.

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