

MEMORANDUM

To: Reporters and Editors  
From: Carol Guthrie for Finance Committee Chairman Max Baucus (D-Mont.)  
Re: Treasury tax gap plan

Finance Committee Chairman Max Baucus agreed to grant additional time for receiving the Treasury Department's updated strategy for reducing the \$345 billion annual "tax gap." At a Finance Committee Hearing on April 18, Baucus asked Secretary Paulson to provide the Committee with an expanded and more detailed plan by July 18 that would achieve a ninety-percent voluntary tax compliance rate within ten years. Today, the Secretary wrote Chairman Baucus and indicated an updated strategy for reducing the tax gap would be completed within the next few weeks. Upon receipt of the Secretary's letter, Baucus made the following comment:

**"Increasing voluntary compliance is essential to a tax system that is fair to all Americans. I am encouraged that the Treasury Department has made considerable progress toward meeting my request for a comprehensive and credible plan with specific objectives and targeted completion dates. I'd rather the Treasury Department take the time necessary to get it right than to provide the Committee with an incomplete plan. I am committed to working with the Secretary to improve tax compliance and significantly reduce the tax gap."**

The text of the Secretary's letter to Chairman Baucus follows here.



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

July 18, 2007

The Honorable Max Baucus  
Chairman  
Committee on Finance  
United States Senate  
Washington, DC 20510

The Honorable Charles Grassley  
Ranking Member  
Committee on Finance  
United States Senate  
Washington, DC 20510

Dear Mr. Chairman and Senator Grassley:

In light of our common goal to improve tax compliance in this country, I wanted to update you on the efforts underway at the Treasury Department and the Internal Revenue Service (IRS) to address the tax gap. Last September, we released a comprehensive, seven-part strategy to reduce the tax gap (the Treasury Strategy). In addition, the President's FY 2008 Budget included significant legislative proposals to improve tax compliance and a request for a substantial funding increase for IRS enforcement efforts, service programs, and systems modernization.

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Since last fall, the IRS, together with Treasury's Office of Tax Policy, has worked to implement the Treasury Strategy while also developing a list of specific near-term and longer-term actions that will be undertaken as part of the Strategy's integrated components. We are nearing completion of an updated, more detailed tax-gap strategy, and we have briefed your respective staffs on its provisions. I expect that the final version, which will include specific objectives and targeted completion dates, will be ready for public release in the next few weeks.

I appreciate your continued support for our efforts to improve tax compliance. Our staffs have had regular, productive meetings to discuss the Administration's legislative proposals to reduce the tax gap. I am grateful for your assistance in seeking to enact these legislative provisions as well as the IRS funding request. By our joint efforts, we can continue to take significant steps to address this important matter.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Paulson, Jr.", written in a cursive style.

Henry M. Paulson, Jr.