



For Immediate Release
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**Hearing Statement of Senator Max Baucus (D-Mont.)
Regarding the Administration's Plan for Reducing the Tax Gap**

Forty-five years ago, President Kennedy challenged the nation. He said:

"I believe that this nation should commit itself to achieving the goal, before this decade is out, of landing a man on the moon and returning him safely to the Earth."

President Kennedy acknowledged the difficulty of the task. But he also saw the risks of failing to act. He said:

"[W]hile we cannot guarantee that we shall one day be first, we can guarantee that any failure to make this effort will make us last."

Today, we discuss goals for improving compliance with the tax law. Improving tax compliance might also be a difficult task. But it is not rocket science.

In 2005, the rate of voluntary tax compliance was 85 percent. But in 2006, it dropped to 83.7 percent. That's a drop of more than a full percentage point on one year. Each percentage point drop in the rate amounts to a \$25 billion increase in the annual tax gap.

Since 2001, the Government has failed to collect more than \$2 trillion in legally-owed taxes.

The American people have a right to expect that their government will have a goal and a credible plan to reduce this tax gap. And it is the Treasury's job to fix it. Yet the administration does not appear to take the job seriously.

In February 2006, I asked Secretary Snow for a tax gap plan within 30 days. When he left office, five months later, we still had not received one. He left behind a few proposals that would raise \$3.5 billion over 10 years, barely a dent in a tax gap that will lose \$3.5 trillion over 10 years.

On June 13, 2006, I asked IRS Commissioner Everson for a "reasonable, but aggressive" plan to reduce the tax gap. He agreed to provide a plan. But he has not delivered one.

On June 27, 2006, I asked Mr. Paulson for a plan. He did not commit to provide one.

On July 13, 2006, I asked Mr. Solomon for a plan. He, too, did not commit to provide a plan.

Only after I held up Mr. Solomon's nomination did Treasury agree to come up with something. And what we received was an outline for a strategy. That outline was utterly inadequate. It merely rehashed ideas that were already floating around Washington. It contained no specific goals.

The Treasury promised to provide a more detailed outline, following the release of the administration's fiscal year 2008 budget plan.

In February, however, the administration's budget included 16 tax compliance proposals that would raise just \$29 billion over 10 years.

Finance Committee staff is working closely with Treasury officials to develop these proposals. But a few worthy ideas do not rise to the level of a plan. And a penny on every dollar of the tax gap is simply not enough.

The budget says that the Treasury and the IRS, quote, "continue to consider additional approaches to reducing the tax gap." For two and a half months, this committee has been waiting to hear what they are.

Some complain that improving tax compliance will burden taxpayers and decrease their rights. But what about the rights of honest, hard-working taxpayers who do pay the taxes that they owe? What about the additional tax burden on honest taxpayers when the dishonest are allowed to skate by?

I know that there is no magic solution to the tax gap. But that doesn't mean there is no solution to the tax gap.

Increasing our nation's rate of voluntary tax compliance is going to take some ingenuity. It will take some elbow grease. It is going to require a multi-faceted approach. It will require addressing services, enforcement, and technology.

The administration needs a plan. It needs a concrete plan. It needs a plan with goals, benchmarks and timetables.

Secretary Paulson was a successful investment banker. Any banker would ask for a comprehensive business plan before approving a loan.

And every time that the Secretary of the Treasury travels overseas, the Department has a destination, an itinerary, and a precise timetable. For that, it has a plan.

That's why it astounds me that the Treasury does not have a comprehensive, credible plan for the tax gap.

I will not wait any longer. I am going to set the goal for you, today.

I am setting a goal of 90 percent voluntary compliance by the year 2017. That is six percentage points higher than today's rate. This is a realistic goal. It is achievable, within 10 years. When it is reached, collections of taxes legally owed will increase by at least \$150 billion each year.

It is up to the Treasury Department to develop and present to this Committee a plan that will achieve this 90 percent compliance goal.

I invite the Secretary to appear before this Committee in 90 days — on July 18, 2007 — to deliver his plan, complete with benchmarks and timetables.

The dropping voluntary compliance rate threatens the integrity of our tax system. It undermines fairness. It weakens confidence in government. And it breeds disrespect for the law.

This nation should commit itself to achieving the goal, before a decade is out, of having at least nine out of 10 taxpayers comply with the tax law. While we cannot guarantee that we shall achieve this goal, we can guarantee the consequences of failure to make the effort.

Let us challenge more taxpayers to comply with the law. Let us challenge the Treasury Department to find ways to make it so. And let us together work to restore the integrity of our tax system.

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