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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

June 22, 2006

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
RUSSELL SULLIVAN, DEMOCRATIC STAFF DIRECTOR

The Honorable Mark W. Everson
Commissioner
Internal Revenue Service
1111 Constitution Avenue
Washington, DC 20224

Dear Commissioner Everson:

At the recent Finance Committee hearing on the corporate tax gap, we requested that the Internal Revenue Service (IRS) provide a comprehensive plan to the Finance Committee to close the tax gap. We are writing to confirm our request and to describe our expectations for the plan.

The IRS estimates that the 2001 gross tax gap is \$345 billion. Compared to the 1992 estimate of \$128 billion, the tax gap grew \$217 billion in under 10 years, a 170% increase. The tax gap is the difference between the taxes that are legally owed and the taxes that are timely paid. It is a serious problem that deserves a serious solution. A comprehensive plan is an important first step to solving the problem. It will be a roadmap to guide the IRS as it rises to the challenge of conquering the tax gap.

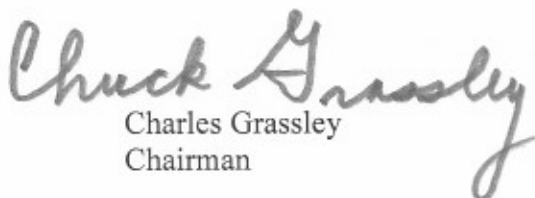
We are requesting that the IRS, in coordination with the Department of Treasury, develop and submit a credible tax gap plan to the Committee no later than September 30, 2006. This plan should include long-term and short-term goals that can be measured through the use of timetables and benchmarks. It should identify the primary causes of the gap and action items to address each of them. The responsible IRS functions and positions must be identified to establish accountability. The plan should specify what the IRS is going to do, how the IRS is going to do it, who is going to do it, and when it will be done.

Although the existing tax gap is measured against existing tax law, we are requesting that the IRS, in consultation with Treasury, provide suggestions for legislative proposals that will assist the IRS in closing the gap and also increase voluntary tax compliance. Further, we are asking that the IRS provide its analysis of the funding and resources needed to close the tax gap, including staffing, training, technology and infrastructure. We have communicated our support to the appropriators for a 2007 IRS budget that will support a balance of service, enforcement and technology and recognize that adequate funding is necessary in order to meet challenges and achieve goals in the future.

The IRS has been unsuccessful in implementing a new version of its electronic fraud detection system (EFDS) database for the past two filing seasons. The IRS, from the beginning of the project, did not appreciate the risks of the new system and failed to properly fund the project. This resulted in the lack of proper IT oversight throughout the life of the project. The IRS also failed to learn from mistakes in terms of inaccurate reporting by the contractor throughout the entire process. Despite known inaccurate reporting, it is our understanding that the IRS is still working with the same contractor today. The result of this project is that the EFDS has been greatly compromised with substantial tax dollars lost. Your plan should include the steps IRS will take to make better use of the funds appropriated by Congress.

Because we plan to hold hearings in Fall 2006 to review and discuss the IRS's plan, we are requesting that you adhere to our deadline. We are looking forward to working with Treasury and the IRS to close the tax gap.

Sincerely yours,


Charles Grassley
Chairman


Max Baucus
Ranking Member

cc: The Honorable John W. Snow, Secretary of the Treasury
The Honorable Rob Portman, Director, OMB