JOINT ECONOMIC COMMITTEE
CONGRESSMAN DON BEYER, CHAIRMAN

Investing in the IRS to Close the Tax Gap

In April 2021, IRS Commissioner Charles Rettig estimated that the tax gap—the difference between the taxes that are owed and the taxes that are actually paid—"could approach and possibly exceed $1 trillion" each year.[1] Commissioner Rettig attributed much of the growing tax gap to the lightly regulated cryptocurrency sector, foreign-source income and the abuse of pass-through provisions.[2] As some taxpayers continuously develop ever more sophisticated methods of tax evasion, it has become increasingly difficult for the IRS to maintain strong enforcement efforts, particularly as its budget and staffing levels have been slashed in recent years.

As a result, not all taxes that are owed are actually paid, and this tax gap translates into lower revenue, reduced fiscal health for the nation as a whole, a less progressive tax system and greater economic inequality. It means that the burden of paying for public services falls disproportionately on taxpayers who are compliant and on wage earners whose income is reported and transparent. Changes to the tax code, particularly as it relates to wealthy individuals and corporations, are necessary to improve tax fairness, raise revenue and make the United States more competitive. But the federal government must also do a better job of collecting the taxes that are already owed.

Collecting taxes is a basic function of the federal government, and the IRS needs to be restored with multiyear funding and investment to better perform this duty. Cracking down on tax avoidance does not increase the amount any individual or company owes in taxes but rather increases the amount actually paid—adding revenue that can be used to invest in workers and families. The Biden Administration's FY 2022 budget request includes needed investments in the IRS and would provide the IRS with greater resources to stop sophisticated forms of tax evasion, collect more information about obscure forms of income and overhaul outdated technology.[3] These increased IRS investments have the bipartisan support of five recent Treasury secretaries, who have stressed the importance of collecting unpaid taxes, as well as economists and former IRS commissioners.[4]

BACKGROUND ON THE TAX GAP

Estimates of the tax gap reach the trillions

The tax gap is projected to total $7 trillion over the next decade, according to the Treasury Department.[5] The last official IRS estimate revealed that the tax gap averaged $441 billion each year from 2011 to 2013, and the Treasury Department estimates that after extrapolating for growth in the intervening years, the tax gap reached $584 billion in 2019.[6] **Each year, the tax gap costs the federal government around 3% of GDP.**[7]

The tax gap has grown substantially in recent years. Commissioner Rettig's estimate of a $1 trillion tax gap would be more than double the $441 billion average annual gap from 2011 to

2013.[8] For those three years, the bulk of the tax gap (80%) was due to the underreporting of income on timely filed tax returns. Failure to file a tax return on time or at all and the underpayment of reported taxes accounted for the rest.[9] Total unpaid taxes amount to more than the collective individual income taxes paid by the bottom 90 % of earners.[10] The top 1% account for as much as 70% of the tax gap.[11]

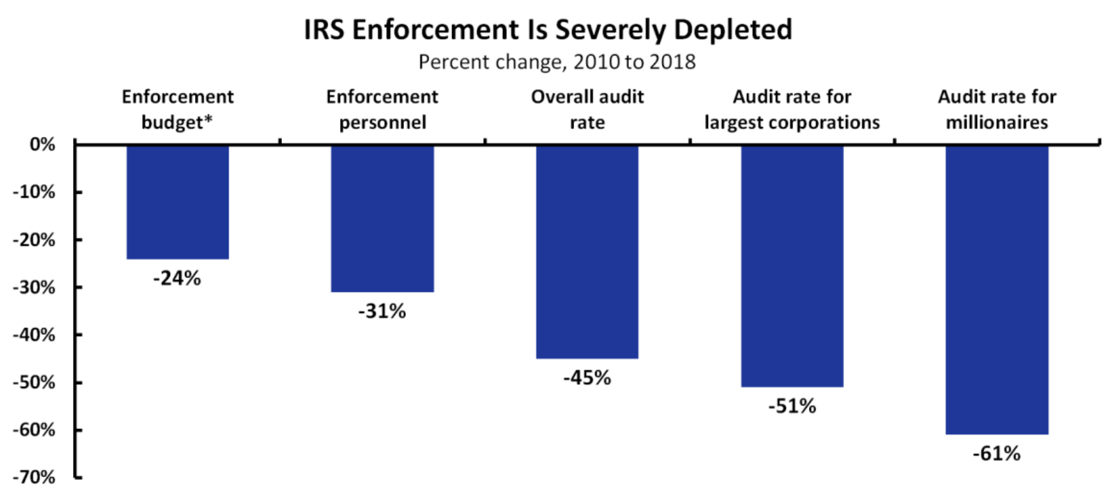
Much of the tax gap, particularly among the wealthy, is due to different reporting requirements for different forms of income. Roughly 99% of the taxes due on wage and salary income, which is documented by employers and taxpayers and almost universally automatically withheld, is reported to the IRS. **Only 45% of more opaque forms of income—such as capital gains, rental income, self-employment income and pass-through business income—is reported.**[12]

HOW DID WE GET HERE?

The IRS's budget and staff have been slashed, while its responsibilities have increased

The IRS's overall budget has declined by 20% over the last decade, while its enforcement budget has decreased by more than 20%.[13] The number of IRS staff is down by 23%, or more than 22,000 employees, over the same period.[14] Lower budgets translate into fewer auditors. In 2017, the IRS had 9,510 auditors—down from over 14,000 in in 2010. The last time the IRS had so few auditors was in the mid-1950s, when the U.S. population was half the size it is today.[15]

Other estimates confirm these trends. In 2020, while testifying before the House Ways and Means Committee, Chye-Ching Huang (now the executive director of the Tax Law Center at NYU Law) showed that, since 2010, overall IRS funding was cut by 21% and enforcement funding was cut by 24%, while the number of income tax returns grew by 9%.[16] At the same time, the number of operations staff fell by 31%, and the number of revenue agents with the expertise to conduct audits of complex returns fell by 35%.[17]



Source: Testimony of Chye-Ching Huang before the House Ways and Means Committee, CBPP calculations of IRS data
Note: *The decline in the enforcement budget is as of 2020, adjusted for inflation. "Largest corporations" refers to corporations with $1 billion or more in assets. "Millionaires" refers to individuals with total positive annual income above $1 million.

At the same time, the IRS has taken on more responsibilities, particularly since 2020. These include two consecutive tax filing seasons with delayed filing deadlines, three rounds of

Economic Impact Payments (EIPs), a retroactive change to the taxation of unemployment benefits to provide up to $10,200 in relief and the administration of the new enhanced child tax benefit.[18]

IRS enforcement has deteriorated

Between 2000 and 2018, the share of individual income tax returns examined by the IRS plummeted by 46%, and the share of corporate income tax returns examined fell by 37%.[19] The audit rate for filers with more than $1 million in annual income fell by 61%, while the audit rate for corporations with more than $1 billion in assets is down 51%.[20]

Audit rates have plummeted across the board but especially for wealthy taxpayers. The audit rate for millionaires fell from 8.4% in 2010 to just 2.4 % in 2019.[21] In the mid-2010s, the richest 0.01% of taxpayers saw close to 30% of their tax returns audited. Just a few years later in 2019, that number fell to under 10%.[22] A 2020 report from the Treasury Inspector General for Tax Administration (TIGTA) found that the IRS failed to investigate more than 369,000 high-income individuals, with estimated tax due of $21 billion, that did not file a tax return from 2014 to 2016.[23] The IRS successfully detected tax noncompliance among these households but did not have the staff to work the cases. Another 510,000 individuals, with an estimated tax liability of $25 billion, are sitting in the agency's inventory streams but are unlikely to be pursued.[24]

The collapse in enforcement—mainly due to decreased IRS budgets and staff but also due to a lack of political will—also manifests itself in taxes on particular forms of income. The audit rates for both S Corporation and partnership returns—two forms of pass-through income—have fallen by more than 40% since 2010. High-income individuals, who have seen their audit rates fall overall, disproportionately own such pass through businesses.[25]

The wealthy take advantage

Fewer enforcement capabilities within the IRS mean more opportunities for the wealthy to take advantage. Estimates suggest that the top 1% account for at least 28% and potentially as much as 70% of the tax gap.[26] New research from IRS analysts John Guyton and Patrick Langetieg and economists Daniel Reck, Max Risch and Gabriel Zucman shows that tax evasion is significantly higher at the top of the income distribution. Underreported income rises from 7% in the bottom 50% of the income distribution to over 20% in the top 1% of the income distribution.[27] This evasion among the top 1% is costing the federal government $175 billion per year. The researchers also demonstrated that random audits underestimate tax evasion at the top of the income distribution and do not capture more sophisticated forms of tax evasion, such as utilizing offshore accounts and manipulating pass-through business income.[28] Similarly, economists Natasha Sarin and Larry Summers found that underreporting of income is more than five times as high for individuals who earn $10 million or more each year than it is for those who make under $200,000.[29] The 2020 TIGTA report found that almost 880,000 high-income individuals, with an estimated collective tax liability of nearly $46 billion, did not file tax returns from 2014 to 2016.[30]

INCREASED FUNDING AND REFORM PROPOSALS

President Biden's FY 2022 budget request boosts the IRS's funding

The Biden Administration's budget calls for a $13.2 billion baseline budget for the IRS in fiscal year 2022, which would amount to a $1.2 billion or 10.4% increase over the 2021 enacted level. Part of that increased baseline budget, combined with an additional increase of $417 million for tax enforcement as part of a multiyear initiative to increase tax compliance and revenues, would boost resources for tax enforcement by a total of $0.9 billion.[31] The IRS would use this funding to increase oversight of high-income and corporate tax returns.[32]

President Biden's American Families Plan includes significant investment in the IRS

To help pay for the American Families Plan, President Biden has proposed giving the IRS more enforcement power and an extra $80 billion over the next 10 years to help crack down on tax evasion by high-earners and large corporations.[33] The plan also includes new disclosure requirements for individuals who own pass-through businesses and for other wealthy individuals who may use sophisticated methods to hide income. The Treasury Department believes that reforms to the IRS and more aggressive tax enforcement will generate an additional $700 billion in tax revenue over the next decade ($460 billion from expanded information reporting and $240 billion from increased IRS staff and upgraded IT systems).[34] This is a conservative estimate, as studies have shown that investments of this magnitude could generate more than $1 trillion over a decade.[35] The Treasury Department also finds that these reforms will raise $1.6 trillion in the second decade, as investments in the IRS often take several years to reach their ultimate payoff.[36]

The Treasury Department has outlined reforms that will provide the IRS with greater resources to stop sophisticated forms of tax evasion, provide the agency with more complete information, overhaul outdated technology and give the IRS the authority to regulate tax preparers.[37] Specifically, the Biden Administration "would require financial institutions to report information on account flows so that earnings from investments and business activity are subject to reporting more like wages already are."[38] Importantly, this would not create an additional burden on the taxpayers affected (with income from financial accounts) as financial institutions would report information they already know about taxpayers in reports they already file.[39] But the IRS would have the information to verify income, incentivizing taxpayers to accurately report their income. President Biden has committed to focusing more aggressive tax enforcement on the most wealthy individuals, rather than Americans with incomes of less than $400,000.[40]

The extra $80 billion would be an increase of two-thirds over the IRS's entire funding levels for the past decade. President Biden's commitment over the 10 years is important because it signals to potential tax evaders that stronger enforcement is here to stay, and it will take time to build up the necessary infrastructure and technology and to train IRS staff to conduct complex audits. The disclosure requirements are important because as former IRS commissioner Fred Goldberg said, "audits alone will never do the trick."[41] **Investment in the IRS truly pays for itself. The IRS estimates that each additional dollar spent on tax enforcement yields $4 in revenue.** The potential deterrence effects, given that the U.S. tax system largely depends on voluntary compliance, are even greater, with an estimated return of $24 for each dollar invested.[42]

Only multiyear funding, such as that included in the American Families Plan, will enable the IRS to make the necessary reforms—to hire and train staff, make multiyear investments in upgrading information technology (IT) and build up enforcement capabilities. IRS Commissioner Rettig told Congress earlier this year that "mandatory, consistent, adequate, multiyear funding allows us to plan appropriately."[43] More IRS staff must be hired and trained. It takes four to five years for the IRS to train new staff to become revenue auditors capable of detecting fraud in the most complex cases, such as those common among high-income individuals, partnerships and large corporations.[44] IRS staffing suffered from a hiring freeze from 2011 to 2018, which has contributed to a generation gap at the agency with as much as 40% of the agency's current workforce eligible to retire in the next several years.[45]

The IRS also must overhaul its antiquated IT systems to better match information and more efficiently process and examine tax returns. In 2019, the IRS outlined its multiyear IRS Modernization Plan, which is a six-year strategy to modernize the agency's IT infrastructure expected to cost approximately $2.3 billion to $2.7 billion.[46] Incremental, yearly funding will not enable the IRS to fully implement this plan. Many economists and tax policy experts have consistently made the case for multiyear funding provided directly through authorizing law, as well as a "multi-year 'allocation adjustment' to appropriations" that would allow for additional appropriations for the IRS that would not count toward its overall appropriations and thus would not be forced to compete with other discretionary spending priorities.[47]

Former Treasury secretaries support President Biden's plan

A bipartisan group of five former Treasury secretaries—Timothy Geithner, Jack Lew, Hank Paulson, Robert Rubin and Larry Summers—co-authored a June 2021 *New York Times* op-ed highlighting "the importance of strengthening the tax system to do more to collect legally owed but uncollected taxes" and their support for President Biden's plan for mandatory, multiyear funding for the IRS.[48] The secretaries underscored the need for IT improvements and better information reporting, endorsing President Biden's plan to require financial institutions to report account flows. They also pointed out that the Treasury Department's estimate that these reforms, among others, will generate an additional $700 billion in tax revenue over the next decade is a modest one.

Economists have demonstrated that increased enforcement and reporting requirements will boost revenue

Economists Natasha Sarin and Larry Summers posited in a 2019 paper that the IRS could shrink the tax gap by around 15% over the next decade and generate over $1 trillion in additional revenue by increasing enforcement resources, performing more targeted audits of high-income earners, raising information reporting requirements and investing in information technology. Sarin and Summers found that increasing audit rates to 2011 levels could generate over $700 billion in additional tax revenue between 2020 and 2029.[49]

Audits of high-income earners are a more efficient use of IRS resources and yield greater revenue. **In 2013, the IRS estimated that an extra hour spent auditing someone who earns $200,000 a year generated only $650, while an extra hour spent auditing someone who makes $5 million or more a year generated around $4,900.**[50] Wealthier individuals tend to have larger tax liabilities, so discrepancies between what is owed and what is paid can be larger in magnitude. They also have more complex returns, as their income frequently comes in more opaque forms where information reporting and compliance are lower, as well as more incentives to evade or avoid taxes.

Improved information reporting can increase compliance and shrink the tax gap. Underreporting of income on filed tax returns accounts for 80% of the tax gap, and underreporting is most common among categories of income that are less visible to the IRS, such as capital gains, rental income, self-employment income and pass-through business income.[51] Wealthier Americans are more likely to have these forms of income, and the IRS estimates that up to 55% of such income can go unreported.[52] Sarin and Summers find that increasing reporting requirements for individual income categories subject to “some information reporting” and for income subject to “little or no information reporting” would generate nearly $2 trillion in tax revenue.[53]

Overhauling antiquated IT systems and increasing IT outlays can also help shrink the tax gap. In 2018, the IRS spent only $2.5 billion on IT investments—just 15% of what Bank of America spent to serve only a quarter of Americans. Most of the IRS’s hardware is beyond its useable life, while some of its software is several releases behind the most up-to-date version.[54] Some of the IRS’s IT systems are over 50 years old—the oldest and highest risk systems in the federal government.[55] Maintaining the antiquated IT systems that layer new systems on top of an obsolete infrastructure is actually more costly for the IRS than switching to a modern system.[56] Better systems for matching taxpayer filings with third-party information returns and increased investigation of mismatches can also yield significant revenue.[57]

Economists Daniel Reck, Max Risch and Gabriel Zucman also find that greater fiscal support for the IRS is necessary to combat widespread tax evasion by the top income earners in the United States. They propose a number of strategies to clamp down on tax evasion: greater scrutiny of pass-through businesses, more comprehensive audits, more thorough litigation of tax disputes, new regulations that explicitly prohibit legally questionable avoidance strategies and programs to encourage whistle-blowing.[58]

Former IRS commissioners have called for increased reporting requirements and IT investments to boost enforcement and revenue

Former IRS commissioners Fred Goldberg, who served under President George H.W. Bush, and Charles Rossotti, who served under Presidents Bill Clinton and George W. Bush, have also called for building on third-party information reporting to the IRS, investing in information technology and scaling up and transforming auditing to be more efficient for the IRS. Goldberg and Rossotti claim that these three measures, which will add $65 billion to the IRS budget over 10 years, will enable the agency to collect an additional $1.4 trillion over the decade. One of their proposals is to require banks to provide the top 25% of taxpayers with business income an annual summary of their deposits and withdrawals. These high-income business taxpayers would be able to use the summaries to help prepare accurate returns, while the IRS could use them to verify information and pursue audits that are more efficient. The goal is to create a third-party verification system for business income, comparable to that of wage income. Updating IT systems would enable the IRS to more efficiently process returns, especially certain types of business tax returns that it currently audits manually.[59]

Rossotti and former associate IRS commissioner Fred Forman have outlined a proposed new reporting requirement, the 1099New form, that they believe will enable the IRS to recover $1.6 trillion. The 1099New would be required for individual taxpayers whose income is in the top 25% of all filers and who have income from low visibility sources—or about 5% of all individual filers. It would also be required for all pass-through entities who have an ownership interest held by individual taxpayers above the designated income level. The IRS would be responsible for determining which taxpayers would be covered by the 1099New reporting requirement, while financial service providers[60] would send these taxpayers and the IRS the 1099New reports, as it already does with other forms of 1099s. The 1099New report would enable taxpayers to accurately complete their returns while also providing the IRS with a form of third-party information verification.[61]

CBO projects that increased funding for enforcement will raise billions

The Congressional Budget Office (CBO) estimates that increasing IRS funding for examinations and collections by $20 billion over 10 years would increase revenue by $61 billion and that increasing funding by $40 billion over 10 years would increase revenue by $103 billion. These estimates only capture the direct effect of enforcement and do not include the indirect effects, such as deterrence and greater voluntary compliance.[62] Additionally, the estimates understate the level of investment necessary to restore the IRS, assume rapidly diminishing returns to modest increases in investment, exclude the long-run benefits of increased enforcement beyond a 10-year window and consider a limited range of IRS interventions (excluding better information reporting and IT improvements).[63]

CBO acknowledges that increased funding for IRS enforcement activities could improve tax compliance and increase federal revenue, but due to the scorekeeping rules used by Congress, it does not count this additional revenue in formal cost estimates or for budget enforcement purposes.[64] Under these scorekeeping rules, CBO does not include added revenue or reductions in mandatory spending that might result from additional spending. Congress established these rules to avoid crediting uncertain potential savings as an offset against certain upfront spending. CBO does not count potential revenue from legislation in a cost estimate if that revenue does not come from changes in the tax code; it also does not count budgetary savings if they result from funding in authorizing legislation for administrative or program management activities (such as increased IRS enforcement).[65]

CONCLUSION

Reforms to and reinvestment in the IRS are necessary to administer a more fair and effective tax system—one in which individuals of different income levels and with different sources of income contribute equitably. A foundational principle of good taxation is that individuals with the same level of income, regardless of the type, should pay the same in taxes. Increased funding and staff as well as improved disclosure requirements, information and technology will help the IRS pursue high-income taxpayers who evade their tax liability, ensure that more opaque forms of income are reported, investigate cases of underreported income and begin to close the tax gap. Even in its current state of continued disinvestment, the IRS collected more than $3.5 trillion in taxes in 2018 with a budget of just $11.4 billion; greater investment will empower the IRS to be even more effective.[66] Reforms to the IRS will lead to greater revenue, improved fiscal health for the nation and a more progressive tax system.

SUGGESTED READING

The American Families Plan Tax Compliance Agenda, Treasury Department

Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011–2013, Internal Revenue Service

Tax Evasion at the Top of the Income Distribution: Theory and Evidence, National Bureau of Economic Research (John Guyton, Patrick Langetieg, Daniel Reck, Max Risch and Gabriel Zucman)

Rebuilding IRS Would Reduce Tax Gap, Help Replenish Depleted Revenue Base, Center on Budget and Policy Priorities (Chuck Marr, Sam Washington, Samantha Jacoby and David Reich)

We Ran the Treasury Department. This Is How to Fix Tax Evasion, *The New York Times* (Timothy F. Geithner, Jacob J. Lew, Henry M. Paulson Jr., Robert E. Rubin and Lawrence H. Summers)

The I.R.S. Is Outgunned, *The New York Times* (Natasha Sarin)

How Biden Funds His Next Bill: Shrink the $7.5 Trillion Tax Gap, *The New York Times* (Chye-Ching Huang)

---

[1] IRS Commissioner Charles Rettig, "A Closer Look: Impacting the Tax Gap," Internal Revenue Service, https://www.irs.gov/pub/foia/ig/cl/tax-gap-for-web.pdf; Frank Konkel, "IRS Commissioner Calls for Multiyear Funding to Help Recoup Potential $1T Tax Gap," *Nextgov*, April 13, 2021, https://www.nextgov.com/it-modernization/2021/04/irs-commissioner-calls-multiyear-funding-help-recoup-potential-1t-tax-gap/173341/.

[2] At a Senate Finance Committee hearing on June 8, 2021, IRS Commissioner Rettig asked Congress for authority to collect cryptocurrency data. Alan Rappeport, "Tax cheats cost the U.S. $1 trillion per year, I.R.S chief says," *The New York Times*, April 13, 2021, https://www.nytimes.com/2021/04/13/business/irs-tax-gap.html; Allyson Versprille, "IRS Chief Asks Congress for Authority to Get Cryptocurrency Data," *Bloomberg*, June 8, 2021, https://www.bgov.com/core/news/#!/articles/QUE3GPDWRGG4.

[3] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150.

[4] Timothy F. Geithner, Jacob J. Lew, Henry M. Paulson Jr., Robert E. Rubin and Lawrence H. Summers, "We Ran the Treasury Department. This Is How to Fix Tax Evasion," *The New York Times*, June 9, 2021, https://www.nytimes.com/2021/06/09/opinion/politics/irs-tax-evasion-geithner-lew-paulson-summers-rubin.html.

[5] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475; Natasha Sarin, "The I.R.S. Is Outgunned," *The New York Times*, October 2, 2020, https://www.nytimes.com/2020/10/02/opinion/sunday/irs-tax-income-inequality.html.

[6] This estimate is for the gross tax gap. The IRS estimated that the net tax gap, which accounts for enforcement efforts and late payments, was $381 billion for tax years 2011 to 2013. Internal Revenue Service, "Tax Gap Estimates for Tax Years 2011-2013," https://www.irs.gov/newsroom/the-tax-gap; U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[7] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf

[8] This estimate is for the gross tax gap. The IRS estimated that the net tax gap, which accounts for enforcement efforts and late payments, was $381 billion for tax years 2011 to 2013. Internal Revenue Service, "Tax Gap Estimates for Tax Years 2011-2013," https://www.irs.gov/newsroom/the-tax-gap.

[9] Tax Policy Center, "What is the tax gap?" https://www.taxpolicycenter.org/briefing-book/what-tax-gap#:~:text=Individual%20Taxes-,What%20is%20the%20tax%20gap%3F,percent%20of%20total%20tax%20liability.

[10] Charles O. Rossotti, Natasha Sarin and Lawrence H. Summers, "Shrinking the Tax Gap: A Comprehensive Approach," *taxnotes*, December 15, 2020, https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht.

[11] Natasha Sarin, Lawrence H. Summers and Joe Kupferberg, "Tax Reform for Progressivity: A Pragmatic Approach," Hamilton Project, https://www.hamiltonproject.org/assets/files/SarinSummers_LO_FINAL.pdf.

[12] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150; Internal Revenue Service, "Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011–2013," Publication 1415 (Rev. 9-2019), https://www.irs.gov/pub/irs-pdf/p1415.pdf; Galen Hendricks and Seth Hanlon, "Better Tax Enforcement Can Advance Fairness and Raise More Than $1 Trillion of Revenue," Center for American Progress, April 19, 2021, https://www.americanprogress.org/issues/economy/reports/2021/04/19/498311/better-tax-enforcement-can-advance-fairness-raise-1-trillion-revenue/; Richard Rubin, "Biden's Big Agenda Relies on a Shrunken, Strained Agency: The

IRS," *The Wall Street Journal*, April 20, 2021, https://www.wsj.com/articles/biden-agenda-relies-on-shrunken-strained-irs-11618928830.

[13] After adjusting for inflation. U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150; Government Accountability Office, "Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season," Report to the Committee on Ways and Means, House of Representatives, March 2021, https://www.gao.gov/assets/gao-21-251.pdf; Congressional Budget Office, "Trends in the Internal Revenue Service's Funding and Enforcement," July 2020, https://www.cbo.gov/publication/56467#:~:text=The%20IRS's%20appropriations%20have%20fallen,less%20to%20enforce%20tax%20laws; Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, W.W. Norton and Company, 2020.

[14] Government Accountability Office, "Actions Needed to Address Processing Delays and Risks to the 2021 Filing Season," Report to the Committee on Ways and Means, House of Representatives, March 2021, https://www.gao.gov/assets/gao-21-251.pdf.

[15] Emmanuel Saez and Gabriel Zucman, *The Triumph of Injustice: How the Rich Dodge Taxes and How to Make Them Pay*, W.W. Norton and Company, 2020.

[16] Percentages are in inflation-adjusted terms.

[17] Chye-Ching Huang, "Depletion of IRS Enforcement Is Undermining the Tax Code," Testimony Before the House Ways and Means Committee, February 11, 2020, https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code.

[18] The filing deadline for 2019 tax returns was pushed back from April 15, 2020, to July 15, 2020. The filing deadline for 2020 tax returns was pushed back from April 15, 2021, to May 17, 2021. The enhanced child tax credit (CTC) included in the American Rescue Plan increases the maximum annual benefit from $2,000 to $3,600 per child under the age of 6 and $3,000 per child between 6 and 17 for 2021. The IRS began distributing the enhanced CTC in July and will do so through December 2021. Heather Long and Tony Romm, "The IRS is behind in processing nearly 7 million tax returns, slowing refunds as it implements new stimulus," *The Washington Post*, March 12, 2021, https://www.washingtonpost.com/business/2021/03/12/irs-tax-refund-delays/; Chuck Marr, Kris Cox, Stephanie Hingtgen, Katie Windham and Arloc Sherman, "American Rescue Plan Act Includes Critical Expansions of Child Tax Credit and EITC," Center on Budget and Policy Priorities, March 12, 2021, https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and; Richard Rubin, "Biden's Big Agenda Relies on a Shrunken, Strained Agency: The IRS," *The Wall Street Journal*, April 20, 2021, https://www.wsj.com/articles/biden-agenda-relies-on-shrunken-strained-irs-11618928830.

[19] Congressional Budget Office, "Trends in the Internal Revenue Service's Funding and Enforcement," July 2020, https://www.cbo.gov/publication/56467#:~:text=The%20IRS's%20appropriations%20have%20fallen,less%20to%20enforce%20tax%20laws; Treasury Inspector General for Tax Administration, "Trends in Compliance Activities Through Fiscal Year 2019," Report Number: 2021-30-011, March 12, 2021, https://www.treasury.gov/tigta/auditreports/2021reports/202130011fr.pdf.

[20] Chye-Ching Huang, "Depletion of IRS Enforcement Is Undermining the Tax Code," Testimony Before the House Ways and Means Committee, February 11, 2020, https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150.

[21] Chuck Marr, Sam Washington, Samantha Jacoby and David Reich, "Rebuilding IRS Would Reduce Tax Gap, Help Replenish Depleted Revenue Base," Center on Budget and Policy Priorities, April 13, 2021, https://www.cbpp.org/research/federal-tax/rebuilding-irs-would-reduce-tax-gap-help-replenish-depleted-revenue-base.

[22] Christopher Ingraham, "The richest 1 percent dodge taxes on more than one-fifth of their income, study shows," *The Washington Post*, March 26, 2021, https://www.washingtonpost.com/business/2021/03/26/wealthy-tax-evasion/.

[23] Treasury Inspector General for Tax Administration, "High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service," Reference Number: 2020-30-015, May 29, 2020, https://www.treasury.gov/tigta/auditreports/2020reports/202030015fr.pdf.

[24] Ibid.

[25] Chye-Ching Huang, "Depletion of IRS Enforcement Is Undermining the Tax Code," Testimony Before the House Ways and Means Committee, February 11, 2020, https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code.

[26] Chye-Ching Huang, "How Biden Funds His Next Bill: Shrink the $7.5 Trillion Tax Gap," *The New York Times*, March 10, 2021, https://www.nytimes.com/2021/03/10/opinion/deficits-taxes-biden-infrastructure.html.

[27] John Guyton, Patrick Langetieg, Daniel Reck, Max Risch and Gabriel Zucman, "Tax Evasion at the Top of the Income Distribution: Theory and Evidence," National Bureau of Economic Research, Working Paper 28542, https://www.nber.org/system/files/working_papers/w28542/w28542.pdf.

[28] Ibid.

[29] Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475.

[30] Treasury Inspector General for Tax Administration, "High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service," Reference Number: 2020-30-015, May 29, 2020, https://www.treasury.gov/tigta/auditreports/2020reports/202030015fr.pdf.

[31] Office of Management and Budget, The President's Request for Fiscal Year (FY) 2022 Discretionary Funding, April 9, 2021, https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request.pdf; Allyson Versprille, "Biden Seeks 10% IRS Funding Hike to Spur More Audits of Wealthy," *Bloomberg Tax*, April 9, 2021, https://news.bloombergtax.com/daily-tax-report/biden-seeks-10-irs-funding-hike-to-spur-more-audits-of-wealthy.

[32] Office of Management and Budget, The President's Request for Fiscal Year (FY) 2022 Discretionary Funding, April 9, 2021, https://www.whitehouse.gov/wp-content/uploads/2021/04/FY2022-Discretionary-Request.pdf.

[33] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[34] The estimated $700 billion in additional tax revenue is net of the proposed investments. U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150; Jim Tankersley, "Biden Seeks $80 Billion to Beef Up I.R.S. Audits of High-Earners," *The New York Times*, April 27, 2021, https://www.nytimes.com/2021/04/27/business/economy/biden-american-families-plan.html; Chuck Marr, Samantha Jacoby, George Fenton and Sam Washington, "Biden Proposals Would Reduce Large Tax Advantages for Those at the Top, Address Tax Gap," Center on Budget and Policy Priorities, May 11, 2021, https://www.cbpp.org/research/federal-tax/biden-proposals-would-reduce-large-tax-advantages-for-those-at-the-top-address.

[35] Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475; Charles O. Rossotti, Natasha Sarin and Lawrence H. Summers, "Shrinking the Tax Gap: A Comprehensive Approach," *taxnotes*, December 15, 2020, https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht.

[36] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[37] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150.

[38] The White House, "Fact Sheet: The American Families Plan," April 28, 2021, https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/; U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[39] Financial institutions already report their customers' interest, dividend and capital gains information to the IRS. They would be required to add the overall amount of money flowing into and out of an account each year to 1099-

INT forms that they already provide to many taxpayers with income from financial accounts. Chuck Marr, Samantha Jacoby, George Fenton and Sam Washington, "Biden Proposals Would Reduce Large Tax Advantages for Those at the Top, Address Tax Gap," Center on Budget and Policy Priorities, May 11, 2021, https://www.cbpp.org/research/federal-tax/biden-proposals-would-reduce-large-tax-advantages-for-those-at-the-top-address.

[40] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; U.S. Department of the Treasury, "Investing in the IRS and Improving Tax Compliance," April 28, 2021, https://home.treasury.gov/news/press-releases/jy0150.

[41] Jim Tankersley, "Biden Seeks $80 Billion to Beef Up I.R.S. Audits of High-Earners," *The New York Times*, April 27, 2021, https://www.nytimes.com/2021/04/27/business/economy/biden-american-families-plan.html.

[42] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; Galen Hendricks and Seth Hanlon, "Better Tax Enforcement Can Advance Fairness and Raise More Than $1 Trillion of Revenue," Center for American Progress, April 19, 2021, https://www.americanprogress.org/issues/economy/reports/2021/04/19/498311/better-tax-enforcement-can-advance-fairness-raise-1-trillion-revenue/.

[43] Ibid.

[44] U.S. Government Accountability Office, "Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission," GAO-19-176, March 2019, https://www.gao.gov/assets/gao-19-176.pdf.

[45] IRS Commissioner Charles Rettig, "A Closer Look: Impacting the Tax Gap," Internal Revenue Service, https://www.irs.gov/pub/foia/ig/cl/tax-gap-for-web.pdf; "Not Enough Cops on the Beat: IRS Cuts Have Benefited Wealthy Tax Cheats," Center for American Progress, April 11, 2019, https://www.americanprogress.org/issues/economy/news/2019/04/11/468594/not-enough-cops-beat-irs-cuts-benefited-wealthy-tax-cheats/; Brittany De Lea, "IRS says 31% of its workers to retire in five years," *Fox Business*, February 5, 2020, https://www.foxbusiness.com/money/irs-dwindling-workforce-retire.

[46] Internal Revenue Service, "IRS Modernization Plan provides plan to improve services for taxpayers, tax community," April 2019, https://www.irs.gov/newsroom/irs-modernization-plan-provides-plan-to-improve-services-for-taxpayers-tax-community.

[47] Chuck Marr, Sam Washington, Samantha Jacoby and David Reich, "Rebuilding IRS Would Reduce Tax Gap, Help Replenish Depleted Revenue Base," Center on Budget and Policy Priorities, April 13, 2021, https://www.cbpp.org/research/federal-tax/rebuilding-irs-would-reduce-tax-gap-help-replenish-depleted-revenue-base; Chye-Ching Huang, "Depletion of IRS Enforcement Is Undermining the Tax Code," Testimony Before the House Ways and Means Committee, February 11, 2020, https://www.cbpp.org/research/federal-tax/depletion-of-irs-enforcement-is-undermining-the-tax-code; Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475; Charles O. Rossotti, Natasha Sarin and Lawrence H. Summers, "Shrinking the Tax Gap: A Comprehensive Approach," *taxnotes*, December 15, 2020, https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht.

[48] Timothy F. Geithner, Jacob J. Lew, Henry M. Paulson Jr., Robert E. Rubin and Lawrence H. Summers, "We Ran the Treasury Department. This Is How to Fix Tax Evasion," *The New York Times*, June 9, 2021, https://www.nytimes.com/2021/06/09/opinion/politics/irs-tax-evasion-geithner-lew-paulson-summers-rubin.html.

[49] Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475.

[50] Ibid.

[51] Ibid.

[52] Natasha Sarin, "The I.R.S. Is Outgunned," *The New York Times*, October 2, 2020, https://www.nytimes.com/2020/10/02/opinion/sunday/irs-tax-income-inequality.html.

[53] Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475.

[54] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf; Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475.

[55] Government Accountability Office, "Information Technology: IRS Needs to Take Additional Actions to Address Significant Risks to Tax Processing," GAO-18-298, June 28, 2018, https://www.gao.gov/products/gao-18-298; U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[56] U.S. Department of the Treasury, "The American Families Plan Tax Compliance Agenda," May 2021, https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf.

[57] Natasha Sarin and Larry Summers, "Shrinking the Tax Gap: Approaches and Revenue Potential," National Bureau of Economic Research, Working Paper 26475, November 2019, https://www.nber.org/papers/w26475.

[58] Daniel Reck, Max Risch and Gabriel Zucman, "Tax evasion at the top of the U.S. income distribution and how to fight it," Washington Center for Equitable Growth, March 22, 2021, https://equitablegrowth.org/tax-evasion-at-the-top-of-the-u-s-income-distribution-and-how-to-fight-it/.

[59] Fred Goldberg and Charles Rossotti, "Make Tax System Fairer, Easier for Taxpayers While Collecting $1.4 Trillion Owed But Not Paid," *Bloomberg Law*, February 17, 2021, https://news.bloomberglaw.com/daily-tax-report/make-tax-system-fairer-easier-for-taxpayers-while-collecting-1-4-trillion-owed-but-not-paid.

[60] Financial service providers include "Banks and traditional financial institutions that enable individuals to make and receive payments and hold balances; online payment systems and mobile payment apps that permit individuals and companies to make and receive payments and hold a balance that is not always reflected in the traditional banking system; and cryptocurrency exchanges."

[61] Charles Rossotti and Fred Forman, "Shrink the Tax Gap Information Reporting: Revised Criteria and Process for Financial Service Provider Information Reporting of Low Visibility Income (1099New)," April 19, 2021, https://shrinkthetaxgap.com/update-1-revised-process-for-1099new/.

[62] Congressional Budget Office, "Trends in the Internal Revenue Service's Funding and Enforcement," July 2020, https://www.cbo.gov/publication/56467#:~:text=The%20IRS's%20appropriations%20have%20fallen,less%20to%20enforce%20tax%20laws.

[63] Natasha Sarin and Lawrence H. Summers, "Understanding the Revenue Potential of Tax Compliance Investment," National Bureau of Economic Research, Working Paper 27571, July 2020, https://www.nber.org/system/files/working_papers/w27571/w27571.pdf.

[64] Congressional Budget Office, "Increase Appropriations for the Internal Revenue Service's Enforcement Initiatives," December 13, 3018, https://www.cbo.gov/budget-options/54826.

[65] Congressional Budget Office, "Trends in the Internal Revenue Service's Funding and Enforcement," July 2020, https://www.cbo.gov/publication/56467#:~:text=The%20IRS's%20appropriations%20have%20fallen,less%20to%20enforce%20tax%20laws.

[66] Ibid.