Treasury report addresses Biden's tax compliance proposals

A Treasury Department report released May 20 describes proposals in President Biden's American Families Plan that call for stricter enforcement of existing tax laws, additional funding for the Internal Revenue Service, and expanded information reporting requirements in an effort to narrow the "tax gap" – the difference between the amount of tax owed to the government and the amount paid.
URL: https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf

Overview

The Treasury Department estimates the tax gap totaled nearly $600 billion in 2019 and will rise to about $7 trillion over the course of the next decade if left unaddressed – roughly equal to 15 percent of taxes owed. The American Families Plan includes a four-pronged proposal that the Biden administration says would increase tax compliance and prevent revenue losses.

Increased IRS enforcement funding: Under the president's proposal, the IRS would receive a budget bump of nearly $80 billion over the next decade to beef up its enforcement resources. According to Treasury, the IRS would grow at a rate of no more than 10 percent annually and would have the funding it needs to make certain operational improvements with large fixed costs, such as modernizing information technology, improving data analytic approaches, and hiring and training agents dedicated to complex enforcement activities. Treasury contends this would allow the Service to make up the ground it lost over the last decade after cuts to the agency's budget led to a decline in its workforce, particularly among specialized auditors who conduct examinations of high-income and global high net worth individuals and complex tax structures, such as partnerships, tiered entities, and multinational corporations.

Increased information reporting by financial institutions: The president's proposal would require financial institutions to report information about total account outflows and inflows in addition to the information on bank accounts they already report to the IRS. The report notes that other accounts that are similarly situated to financial institution accounts would also be covered under this new reporting regime – for example, payment settlement entities would also be required to report gross receipts and gross purchases.

The reporting regime also would cover foreign financial institutions and crypto asset exchanges and custodians.

According to the Treasury Department, the additional information would enable the IRS to better target enforcement activities so that it can step up its scrutiny of wealthy evaders and reduce the likelihood of subjecting fully compliant taxpayers to costly audits. Treasury envisions that this would lead to an increase in voluntary compliance as would-be tax evaders realize that the IRS is able to identify previously unreported income streams.

Upgraded technology to identify tax evasion: The president's proposal would give the IRS the funds to modernize its aging information systems – which are now over 50 years old – so it can identify suspicious tax filings by, for example, comparing returns to similarly situated taxpayers and historical filings in ways that are not possible with the agency's existing technology infrastructure. These resources also would improve the Service's ability to deliver tax credits to eligible families and workers (including the expansions to the child tax credit, the earned income tax credit, and the child and dependent care tax credit, which were recently enacted on a temporary basis in the American Rescue Plan but would be extended over a longer term in the American Families Plan) and would strengthen its efforts to combat cyberattacks, Treasury says.

Regulation of paid tax preparers: To reduce fraud and improper payments under various tax credit programs such as the child tax credit and earned income tax credit – something the administration says is attributable largely to unscrupulous practitioners – the president's plan also proposes to give authority to the IRS to regulate paid tax return preparers and calls for additional sanctions for so-called "ghost preparers" who fail to identify themselves on the tax returns which they prepare.

Revenue estimates: According to Treasury's Office of Tax Analysis, these proposals would raise an estimated $700 billion in additional tax revenue over the next decade. Revenue raised in the second decade would reach an estimated $1.6 trillion, Treasury says, as certain long-term efforts, such as hiring specialized auditors for complex global high net-worth examinations and building the technological infrastructure to support a new information reporting regime, are completed and reach their full potential.

Treasury explains that these estimates are conservative because the revenue potential of additional resources for tax administration is based on return-on-investment estimates from the IRS that only exist for adjustments detected through current enforcement-related activities. The estimates also do not account for the impact overhauling and integrating the Service's information systems or for the deterrent effects of stepped-up enforcement activities, the report says.

Treasury backs global minimum tax of 'at least 15 percent'

Also this week, the Treasury Department announced in a May 20 readout that it called for a global minimum tax rate of "at least 15 percent" in recent discussions with the Steering Group of the Inclusive Framework on base erosion and profit shifting. The discussions were part of ongoing negotiations with the Organisation for Economic Cooperation and Development (OECD), G20 nations, and developing countries to overhaul the international tax rules for multinational businesses.
URL: https://home.treasury.gov/news/press-releases/jy0189

Pillar 2 of the Inclusive Framework calls for an agreement on a global minimum tax rate. (Pillar 1 calls for an agreement on new nexus and profit allocation rules.)

According to the readout, "Treasury underscored that 15 percent is a floor and that discussions should continue to be ambitious and push that rate higher." (The Biden administration's American Jobs Plan includes a proposal to increase the rate on global intangible low-taxed income of US multinationals to 21 percent, from 10.5 percent currently).

Treasury also “made clear that a global corporate minimum tax rate would ensure the global economy thrives based on a more level playing field in the taxation of multinational corporations, and would spur innovation, growth, and prosperity while improving fairness for middle class and working people’” the readout said.

The readout notes that “Treasury was heartened by the positive reception to its proposals.”

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