# Updated 'tax gap' estimates will be ready by summer, Rettig says

The Internal Revenue Service expects to release an updated estimate of what's informally known as the "tax-gap"—the difference between the amount of tax owed to the government and the amount actually paid on a timely basis—by this summer, Commissioner Charles Rettig told Senate taxwriters on April 7.

Rettig made his comment during a Senate Finance Committee hearing to examine the Biden administration's proposed fiscal year 2023 budget for the IRS and the status of the 2022 tax filing season.

**Tax gap**

The most recent official estimate from the IRS (covering 2011-2013) puts the gross annual tax gap at $441 billion and the net annual tax gap at $381 billion. (The net tax gap is the gross amount less any tax eventually collected through enforcement efforts or late payments.) Commissioner Rettig stated in 2021 that the gap may now equal or exceed $1 trillion a year. (For prior coverage, see *Tax News & Views*, Vol. 22, No. 20, Apr. 16, 2021.) He recently told members of the House Ways and Means Oversight Subcommittee that he still stands by that estimate. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 9, Mar. 18, 2022.)
**URL:** https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210416_3.html
**URL:** https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220318_1.html

At this week's Finance Committee hearing, Rettig told Chairman Ron Wyden, D-Ore., that the forthcoming estimate from the IRS will cover the period from 2014 through 2016 and will include projections for 2019. Rettig noted, though, that these new estimates and projections will not reflect the impact of virtual currency transactions and "certain foreign-source income."

"We're working to get that information," he told Wyden, "but we're not where we need to be." According to Rettig, the IRS is aware of "significant noncompliance" with information reporting requirements in the virtual currency realm. There is currently about $14 trillion in virtual currency transactions worldwide, Rettig said, and the US accounts for between 30 and 40 percent of that activity. He added that while reporting levels have shown some degree of improvement, they remain unsatisfactory.

Wyden, for his part, urged the Service to produce tax gap estimates that are more current and provide greater detail into which classes of taxpayers are responsible for the shortfall in payments. That data, he said, is "essential for a lot of the debates we're having" in Congress. Wyden also offered to work with the Service to determine what resources it needs from Congress to make those detailed estimates possible.

**Budget highlights**

The administration's FY 2023 budget blueprint, which was released March 28, calls for an overall allocation of $14.1 billion for the IRS, an increase of nearly 12 percent over the $12.6 billion enacted in the long-delayed

budget agreement for FY 2022, which President Biden signed into law on March 15. (For details on the FY 2022 budget, see *Tax News & Views*, Vol. 23, No. 8, Mar. 11, 2022.)
**URL:** https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220311_1.html

On a program level, FY 2023 proposal includes $3.7 billion for taxpayer services (compared to $2.8 billion enacted for FY 2022), $6.3 billion for enforcement (FY 2022 enacted: $5.4 billion), $3.8 billion for operations (FY 2022 enacted: $4.1 billion), and $310 million for business systems modernization (FY 2022 enacted: $275 million).

Unlike the FY 2022 blueprint, the administration's latest budget request for the Service does not include an additional 10-year allocation that would be dedicated primarily to beefing up enforcement resources. (The White House proposed an $80 billion set-aside for enforcement in FY 2022 and congressional Democrats provided for a similar allocation in the Build Back Better legislation that cleared the House last November but is now stalled in the Senate.)

The Treasury Department stated in a news release that was issued in conjunction with the FY 2023 budget package that "the administration continues to support multiyear investments in IRS tax enforcement to increase tax compliance and revenues that the president has previously proposed."

In addition to the proposed funding increase for the IRS, the budget blueprint also includes several targeted administrative measures that are intended to increase tax collections by tightening taxpayer compliance rules. (For a discussion of notable revenue provisions in the FY 2023 budget package, see *Tax News & Views*, Vol. 23, No. 12, Mar. 29, 2022.)
**URL:** https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220329_1.html

Taxwriters touched on a number of specific elements of the administration's proposed budget for the Service during the hearing and, as has been the case in several recent hearings this year on both sides of the Capitol related to IRS funding, the ensuing discussion sometimes left lawmakers divided along party lines.

**Compliance and enforcement**

Finance Committee Democrats lauded the administration's proposal to increase the IRS's overall budget for fiscal year 2023 and were particularly supportive of the proposed spike in funding for enforcement.

Chairman Wyden contended in his opening statement that years of congressionally mandated cuts to the Service's budget have diminished the ranks of experienced revenue agents and, as a result, created increased opportunities for tax evasion by large corporations, partnerships, and wealthy individuals that have the resources to engage in complex, sophisticated transactions.

But the top Republican on the panel, ranking member Mike Crapo of Idaho, was wary of what he characterized as proposals to generate revenue through "heavy-handed enforcement" and expressed concern about "huge funding boosts that would increase audits on small businesses and middle-class Americans rather than prioritize taxpayer services." Crapo also criticized the "massive $80 billion of mandatory funding" (over 10 years) for IRS enforcement efforts in the administration's fiscal year 2022 budget package and in the House-passed Build Back Better legislation and vowed to ensure that such a proposal never becomes law.

Democratic taxwriter Elizabeth Warren of Massachusetts, meanwhile, argued that a multiyear funding boost for enforcement would give the IRS the tools it needs to implement the administration's proposed minimum tax of 20 percent on total income, generally inclusive of unrealized capital gains, for all taxpayers with wealth greater than $100 million. (Warren called the minimum tax proposal "a giant step forward" in preventing tax avoidance among ultra-wealthy individuals.)

Warren asked Commissioner Rettig about a claim leveled by critics of the proposal that the IRS lacks the capacity to implement a tax of this type. Rettig replied that the IRS already has expertise in complex asset valuations based on its history in auditing large estates and said that a multiyear infusion of funds for enforcement programs would give the agency the tools it needs to effectively administer the proposed new tax.

"We have the most sophisticated financial examiners on the planet . . . and we need to support them by providing them meaningful tools, resources, and training," Rettig said. That level of investment would, in turn, help restore the IRS's reputation "a place where tax professionals want[] to go," he added.

**IT modernization**

There was greater bipartisan consensus on the panel around the need to modernize the Service's information technology infrastructure, which consists of a patchwork of antiquated systems—some of which date back to the 1960s—that are poorly coordinated.

Several Finance Committee Republicans—including ranking member Crapo, Sen. Charles Grassley of Iowa, and Sen. Steve Daines of Montana—nonetheless pressed Rettig to explain why the IRS has not been able to bring its IT systems up to date despite the billions of dollars Congress has allocated to those efforts in recent years.

Rettig commented in response that the modernization plan the Service developed in 2019 was reviewed by outside consultants and modified based on their recommendations, but its implementation has been frustrated by the fact that the Service to date has received only 57 percent of the funds that Congress allocated. The inconsistent delivery of funding presents an additional problem, he explained, noting that the IRS, like other government agencies, has had to conduct business through more than 100 continuing resolutions from Congress since 2001. (He noted that an agreement on funding levels for FY 2022, which began on October 1, 2021, was not finalized until just last month.)

In an exchange with Democratic Sen. Tom Carper of Delaware, Rettig said it is "impossible to build a robust, meaningful information technology infrastructure . . . when we don't have consistent, timely, multiyear funding. . . . We consistently have to push projects off based on [funding] limitations."

## Pandemic processing backlog

Taxwriters from both parties asked Rettig about the steps the IRS is taking to reduce the pandemic-related backlog of unprocessed returns from tax year 2020 and 2021 and when the agency expects the issue to be resolved.

Rettig replied that the Service expects to hire 10,000 new employees this year (in two separate tranches of 5,000 each) to address unprocessed returns and other taxpayer correspondence. He also noted that Congress "rescued" the IRS in the just-enacted FY 2022 budget agreement by giving it direct-hire authority for this effort, which will allow the agency to onboard new hires in just 30-45 days. (Under ordinary government hiring procedures, onboarding new employees typically takes anywhere from six to eight months, he said.)

As part of its all-out hiring push, the IRS recently held job fairs at its three major processing centers and extended job offers to over 2,200 prospective employees who attended, Rettig said.

Echoing comments he made during a recent appearance before the House Ways and Means Oversight Subcommittee, Rettig told Senate taxwriters that barring any operational disruptions resulting from an unexpected spike in the COVID pandemic, the Service projects that the backlog should be reduced to a "healthy" level by the end of this calendar year.

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