



Highlights of [GAO-05-753](#), a report to the Committee on Finance, U.S. Senate

TAX COMPLIANCE

Better Compliance Data and Long-term Goals Would Support a More Strategic IRS Approach to Reducing the Tax Gap

Why GAO Did This Study

According to the Internal Revenue Service (IRS), a gap arises each year between what taxpayers pay accurately and on time in taxes and what they should pay under the law. The tax gap is composed of underreporting of tax liabilities on tax returns, underpaying of taxes due from filed returns, and nonfiling of required tax returns altogether or on time.

GAO was asked to provide information on (1) the estimated amount that each major type of noncompliance contributed to the 2001 tax gap and IRS's views on the certainty of its tax gap estimates, (2) reasons why noncompliance occurs, and (3) IRS's approach to reducing the tax gap and whether the approach incorporates established results-oriented planning principles.

What GAO Recommends

GAO recommends that IRS develop plans to periodically measure tax compliance with a focus on individual income tax underreporting; take steps to improve IRS data on the reasons taxpayers are not complying; and establish long-term, quantitative goals on the voluntary compliance levels, starting with individual income tax underreporting and total tax underpayment.

In commenting on a draft of this report, IRS agreed with our recommendations.

www.gao.gov/cgi-bin/getrpt?GAO-05-753.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Mike Brostek at (202) 512-9110 or brostekm@gao.gov.

What GAO Found

IRS estimates that underreporting of taxes accounted for about \$250 billion to \$292 billion of the \$312 billion to \$353 billion tax gap for 2001, while underpayment and nonfiling accounted for about \$32 billion and \$30 billion, respectively. Although IRS has collected recent compliance data, it still has concerns with some outdated methodologies and data used to estimate the tax gap. IRS is taking laudable steps intended to improve the estimate, which it plans to revise by the end of 2005. IRS has also developed a proposed schedule of compliance studies, but it has no approved plans to periodically measure compliance for the tax gap components. While it may not be feasible or necessary to measure compliance for all components at the same frequency or level of investment, periodic compliance studies would support a more data-driven and risk-based approach to reducing the tax gap.

IRS recently began to capture data on the reasons why taxpayers are noncompliant. However, IRS has concerns about the data, such as examiners assigning the same reason for noncompliance regardless of situation. Also, it is often difficult for examiners to determine a taxpayer's intent—whether the noncompliance is unintentional or intentional. Collecting better data on reasons can help IRS focus its activities on taxpayer service or enforcement. Although IRS is developing a system intended to capture better examination data, IRS does not have firm or specific plans to develop better reason data.

IRS approaches tax gap reduction through improving taxpayer service and enforcing tax laws and has two broad strategic goals and related key efforts that are intended to support this approach. However, IRS has not established long-term, quantitative compliance goals and regularly collected data to track its progress, which would complement its current, important compliance efforts. Establishing clear goals and measuring progress towards them would be consistent with results-oriented management principles. IRS has begun to consider additional goals, but it is not yet clear if they will be compliance related. Long-term, quantitative compliance goals, coupled with updated compliance data, would provide a solid base upon which to develop a more strategic, results-oriented approach to reducing the tax gap.

IRS's Preliminary Tax Year 2001 Gross Tax Gap Estimates by Type of Noncompliance and Type of Tax

Dollars in billions

Type of noncompliance	Type of tax					Total
	Individual income	Corporate income	Employment	Estate	Excise	
Underreporting	\$150-\$187	\$30	\$66-\$71	\$4	No estimate	\$250-\$292
Underpayment	19	2	7	2	1	\$32
Nonfiling	28	No estimate	No estimate	2	No estimate	\$30
Total	\$198-\$234	\$32	\$73-\$78	\$8	\$1	\$312-\$353

Source: IRS.

Note: Figures may not sum to totals due to rounding.