



Tax Gap and IRS Enforcement Reform Act Summary

Background

The Biden Administration and congressional Democrats are seeking to increase IRS funding by as much as \$80 billion over the next ten years. The current IRS budget is only \$12 billion annually. By supercharging the IRS in this way, the administration claims that the agency can bring in an additional \$700 billion in revenue. To collect this amount of revenue, the administration would hire 87,000 new IRS employees and require local banks to report details on every American's bank account to the IRS.

This approach would infringe on taxpayer privacy, create an incredibly intrusive IRS workforce, and is unlikely to bring in \$700 billion in new revenue. The administration's revenue calculations are based on unreliable and self-interested estimates of the tax gap.

There is a better way to more accurately calculate unpaid taxes, close the tax gap, and still protect taxpayer privacy. The proposal described below does just that.

Summary of Proposal

Tax Gap Reform: This legislation reforms how the IRS calculates the tax gap by requiring a timelier estimate to be provided annually. It also requires the Joint Committee on Taxation to issue a report to help Congress evaluate the accuracy and usefulness of the IRS's tax gap estimate.

Protecting Taxpayers: The proposal also protects taxpayers from having the IRS weaponized against them. The bill prohibits the establishment of a new bank account reporting regime like the one proposed by the Biden administration. It also prevents the IRS from targeting Americans for their beliefs. The bill also codifies President Biden's promise not to increase audits of taxpayers making less than \$400,000.

Smarter Enforcement: The IRS does not currently use all the tools and data available to it when conducting enforcement. This legislation includes several provisions to require that the IRS use existing data already in its possession to improve its corporate audit selection process and to increase its enforcement against high-income nonfilers. These actions will increase revenue and close the tax gap without doubling the size of the agency and encroaching on taxpayer privacy.

Closing the Expertise Gap: The IRS is often outmatched in tax disputes against large corporations and high-income individuals that may be skirting the tax laws. This section creates an IRS enforcement fellowship pilot program. Under the program, the IRS will have special pay authority to use competitive salaries to recruit dozens of mid-career tax professionals from the private sector to join the IRS for 2-, 3-, or 4-year appointments. The fellows will form a task force focused on assisting with the agency's most complex audits and case selection decisions. The group will also take on a training and mentoring role by involving promising junior IRS employees in the work of the group. This section also requires the group to measure its impact on the tax gap and to report to Congress on its activities. Before hiring thousands of new agents, Congress should test the effectiveness of increasing expertise in a targeted way.