



## RESTORING TAXPAYER TRUST AND ADVANCING ECONOMIC AND RACIAL JUSTICE THROUGH STRONG AND EQUITABLE TAX ENFORCEMENT

In recent years, budget cuts have severely hobbled the Internal Revenue Service, to the benefit of tax-dodging millionaires and large corporations and the detriment of honest taxpayers. The United States is now [losing approximately \\$600 billion per year](#) in unpaid taxes.

As every analyst including the Congressional Budget Office has found, investments in tax enforcement more than pay for themselves. **As Congress considers revenue sources to finance major new investments, [strengthening tax enforcement should be near the top of the list.](#)**

Investments in tax enforcement can not only raise hundreds of billions of dollars in revenue, they are critical to ensuring a tax system and economy that works for ordinary Americans, not just the wealthy and powerful. The richest 1% of Americans are responsible for an outsized share of the “tax gap” – by one estimate [up to 70%](#). A [shocking new study by IRS and academic researchers](#) found that the top 1% do not report 21% of their income to the IRS largely because the IRS lacks the resources to detect offshore evasion and other sophisticated methods used by the wealthy to dodge taxes.

As the IRS was drained of resources over the last decade:

- Audit rates for the highest-income taxpayers [plummeted](#), to the point where low-income workers claiming the Earned Income Tax Credit are now [audited at nearly the same rates as the richest one percent](#).
- The IRS failed to follow up with [hundreds of thousands](#) of high-income taxpayers who did not even file tax returns.
- The IRS [failed to prioritize](#) high-income taxpayers in its collections activity.
- The audit rate for large corporations dropped by [half](#).
- Many giant corporations have [kept billions in questionable tax breaks](#) simply by running out the statute of limitations for the IRS to challenge them.

As a broad coalition of 88 public interest, human needs, faith, union and civil rights groups emphasized in [a recent letter to the Biden Administration and Congress](#), the weakened and inequitable state of IRS enforcement has profound implications for economic, social, racial, and gender justice. Starving the IRS of adequate resources results in unfairness and poor service for honest taxpayers.

Fortunately, this year presents a rare opportunity to address these issues by investing in fair and equitable tax enforcement. Congress must seize the opportunity to rebuild the IRS’s enforcement and technological capabilities with a large, multi-year investment, with additional enforcement resources dedicated to ensuring high-income Americans and large corporations pay what they owe.

To advance better and more equitable tax enforcement, this year Congress should:

**Provide robust funding to rebuild IRS enforcement and modernize technology:** The IRS needs major new investments on the scale of those proposed by [former Commissioner Charles Rossotti and former Associate Commissioner Fred Forman](#), and by [Professor Natasha Sarin and former Treasury Secretary Lawrence Summers](#). As those experts estimate, such investments coupled with additional enforcement tools could raise [more than \\$1 trillion](#) in revenue over ten years. Modernizing the IRS's badly antiquated technology would also allow the IRS to dramatically improve taxpayer services. Investments on this scale are proposed in bills sponsored by Reps. [DeFazio](#) and [Khanna](#), and also included in the [broader wealth tax bill](#) recently introduced by Senator Warren and Reps. Jayapal and Boyle.

**Provide funding this year on a multi-year basis, not simply through annual appropriations:** Congress must provide funding on multi-year basis for the IRS to plan and implement a comprehensive rebuild. The agency will need several years to rebuild its ranks. It takes at least three years for enforcement personnel to gain the skills and experience needed to thoroughly audit the complex tax returns such as those of wealthy individuals, networks of business entities, large trusts and estates, and multinational corporations. Overhauling the IRS's technology is also a multi-year project, and the IRS needs adequate budget certainty to allow it to make needed investments over a multi-year time frame. Recent history has shown that these challenges cannot be addressed adequately through the annual appropriations process, especially if IRS funding – a priority that pays for itself many times over – must compete for limited budget allocations. Funding should ramp up as quickly as the IRS can effectively use it.

**Prioritize audits of high-income individuals and large corporations:** In providing the IRS with substantial new funding, Congress should ensure that the agency prioritizes enforcement with regard to high-income individuals (including the pass-through businesses, trusts and estates they control) and large corporations – so that low-income tax credit recipients are not disproportionately targeted for audits. The IRS should also be required to assess racial disparities in enforcement actions and guarantee that tax enforcement actions do not vary by race or ethnicity.

**Provide the IRS with additional enforcement tools:** Tax compliance is much stronger for income that is subject to information reporting and withholding, which is why the compliance rate for “W-2” wages and salaries is close to 100%. But compliance is [much less](#) for other forms of income, including income received through passthrough businesses and capital gains. Congress should give the IRS the tools to improve information reporting and withholding, such as the [improvements](#) proposed by Democratic- and Republican-appointed former IRS Commissioners Rossotti and Goldberg. This would significantly improve information reporting for high-income taxpayers who own passthrough businesses.