

## 88 NATIONAL ORGANIZATIONS URGE BIDEN ADMINISTRATION & CONGRESS TO INVEST IN FAIR AND ROBUST ENFORCEMENT OF THE TAX LAWS

February 18, 2021

Dear President Biden, Vice President Harris, Senators and Representatives:

As groups dedicated to social, racial, gender, and economic justice, we are writing to urge the new administration and Congress to make strengthening Internal Revenue Service (IRS) tax enforcement a top priority in 2021 and beyond. Fair and adequate tax enforcement is critical for ensuring a tax system and an economy that works for ordinary Americans, not just the wealthy and powerful.

In recent years, enforcement of the tax laws has been severely weakened by budget cuts and inadequate investment in the IRS, draining substantial amounts of revenue owed to the U.S. Treasury and damaging the fairness and integrity of the tax system. **The United States is now estimated to be losing roughly \$600 billion per year in revenue from unpaid taxes.**<sup>1</sup> High-profile examples of wealthy taxpayers evading or aggressively avoiding taxes have highlighted the need for better enforcement.<sup>2</sup>

**Yet the IRS's enforcement budget has been reduced by about a third (in real dollars) over the last decade, with enforcement weakened most dramatically for high-income taxpayers and large corporations—to the point where low-income workers claiming the Earned Income Tax Credit are audited at about the same rates as the top one percent.**<sup>3</sup> Due to these funding cuts, the IRS has failed to go after hundreds of thousands of high-income individuals who failed to file tax returns,<sup>4</sup> is often overmatched in drawn-out tax controversies with wealthy taxpayers and multinational corporations,<sup>5</sup> and now initiates nearly half as many criminal tax fraud investigations as it did a decade ago.<sup>6</sup> Continued weak enforcement will further threaten taxpayer morale, potentially further reducing revenue from voluntary compliance and undermining the social fabric.

**Thus, our groups call upon the new Administration and Congress to prioritize rebuilding the IRS's enforcement capabilities and dedicating additional enforcement resources to ensuring wealthy Americans and large corporations pay what they owe.** The IRS will need substantial increases in funding for enforcement and technology provided on a multi-year basis so that the Service can appropriately plan to hire and train the needed personnel—especially those capable of auditing complex returns such as those of wealthy individuals, trusts and estates, passthrough entities including investment funds, and corporations—and modernize its outdated technology.

Analysts, including the Congressional Budget Office, agree that investments in tax enforcement will more than pay for themselves.<sup>7</sup> CBO's estimates greatly understate the potential revenue gains because they only take into account direct effects of increased enforcement and do not account for the much larger indirect effects from deterring evasion and noncompliance. The Treasury Department has estimated a return on investment for the Treasury of nearly \$6 in direct revenue for every additional enforcement dollar, with an indirect revenue effect three times as large.<sup>8</sup> Professors Natasha Sarin and Lawrence Summers project that **an additional \$100 billion in IRS funding along with improvements in information reporting would generate \$1.15 trillion in new revenue** over ten years.<sup>9</sup> Former IRS Commissioner Charles O. Rossotti and former Associate Commissioner Fred L. Forman estimate that

**investments in IRS personnel and technology coupled with broader information reporting of business activity would increase revenues by \$1.6 trillion.**

At the same time, **the IRS must reassess its audit priorities to further racial and economic justice.** Since 2011, audit rates for millionaires, who are disproportionately white, have dropped more than twice as much as for taxpayers claiming the EITC, who are disproportionately people of color.<sup>10</sup> Audit coverage is now the heaviest in many low-income majority-Black counties.<sup>11</sup> Correcting these imbalances would be an important part of the effort to address systemic racial bias in our tax system and economy.<sup>12</sup> One way to concretely ensure audit fairness is to set minimum audit levels for high-income Americans and large corporations, as would be required by the IRS Enhancement and Tax Gap Reduction Act (Rep. DeFazio, H.R. 6076, 116<sup>th</sup> Congress) as well as the STOP Cheaters Act (Rep. Khanna), which were both introduced this week in the 117<sup>th</sup> Congress.

The new Administration and Congress should also work to make tax filing free and easy for ordinary Americans, and to protect taxpayers by properly regulating paid preparers. Currently, Americans do not have the return-free filing option enjoyed by taxpayers in other countries, and the existing Free File program is inadequate in part because of malfeasance by participating companies.<sup>13</sup> Unregulated tax preparers often expose customers to significant errors and undue penalties.<sup>14</sup> The IRS should be mandated and given the necessary resources to develop return-free filing for taxpayers with simple returns and its own free filing program, as provided by the Tax Filing Simplification Act (H.R. 2297 /S. 1194, 116<sup>th</sup> Congress). Congress should also clarify the law to ensure the IRS has the authority to regulate paid tax preparers.

We are pleased that Congress' oversight committees are shining a light on the critical role of tax enforcement in achieving overall tax fairness. Improved enforcement requires substantial, multi-year investments in the IRS.

Sincerely,

Americans for Tax Fairness  
Center for American Progress  
Public Citizen  
Amalgamated Transit Union (ATU)  
American Federation of Government Employees (AFGE)  
AFL-CIO  
Alliance for Retired Americans  
American Family Voices  
American Federation of State, County and Municipal Employees (AFSCME)  
American Federation of Teachers  
American Postal Workers Union  
Americans for Democratic Action (ADA)  
Americans for Financial Reform  
Appleseed Foundation  
Autistic Self Advocacy Network  
Bend the Arc Jewish Action  
Blue Future  
Campaign for America's Future  
Center for Economic and Policy Research

Center for Law and Social Policy (CLASP)  
Change Machine  
Coalition of Labor Union Women  
Coalition on Human Needs  
Communications Workers of America (CWA)  
Community Change Action  
Congregation of Our Lady of Charity of the Good Shepherd, U.S. Provinces  
Economic Policy Institute  
Economic Security Project Action  
Financial Accountability and Corporate Transparency (FACT) Coalition  
First Focus Campaign for Children  
Friends Committee on National Legislation  
Good Jobs First  
Groundwork Collaborative  
Health Care for America Now  
ICNA Council for Social Justice  
Indivisible  
Institute for Policy Studies -Program on Inequality  
Institute on Taxation and Economic Policy  
International Brotherhood of Teamsters  
International Federation of Professional and Technical Engineers (IFPTE)  
Jobs With Justice  
The Leadership Conference on Civil and Human Rights  
Legal Aid at Work  
Main Street Alliance  
MomsRising  
National Advocacy Center of the Sisters of the Good Shepherd  
National Alliance of HUD Tenants (NAHT)  
National Association for Hispanic Elderly  
National Association of Letter Carriers  
National Coalition for Asian Pacific American Community Development (CAPACD)  
National Council of Churches  
National Domestic Violence Hotline  
National Education Association  
National Employment Law Project  
National Equality Action Team (NEAT)  
National Federation of Federal Employees  
National Latino Farmers & Ranchers Trade Association  
National Organization for Women  
National Partnership for Women & Families  
National Urban League  
National Women's Health Network  
National Women's Law Center  
Native Women Lead  
NETWORK Lobby for Catholic Social Justice  
Our Revolution  
Oxfam America  
Patriotic Millionaires

People's Action  
PolicyLink  
Prosperity Now  
Religious Action Center for Reform Judaism  
Responsible Wealth  
RESULTS  
Revolving Door Project  
RootsAction.org  
Service Employees International Union  
Social Security Works  
Take on Wall Street  
Tara Health Foundation  
Tax March  
Transport Workers Union  
UnidosUS  
United Automobile, Aerospace, and Agricultural Implement Workers of America  
United for a Fair Economy  
United Steelworkers (USW)  
UNITE HERE!  
Working America  
Working Families Party

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<sup>1</sup> The IRS's most recent estimate of the "tax gap" is \$381 billion annually over 2011-2013, which extrapolates to \$574 billion in 2019 assuming the same compliance rate. Charles O. Rossotti and Fred L. Forman, "Recover \$1.6 Trillion, Modernize Tax Compliance and Assistance: The How-To," *Tax Notes*, Sept. 29, 2020.

<sup>2</sup> Russ Buettner, Susanne Craig and Mike McIntire, "Long-concealed Records Show Trump's Chronic Losses and Years of Tax Avoidance," *New York Times*, Sept. 27, 2020; Clare Duffy, "Software CEO Robert Brockman charged in \$2 billion tax evasion case," *CNN*, Oct. 17, 2020; Sharon LaFraniere, "Paul Manafort, Trump's Former Campaign Chairman, Guilty of 8 Counts" *New York Times*, Aug. 21 2018.

<sup>3</sup> Center for American Progress, "Unrigging the Economy Will Require Enforcing the Tax Laws," (March 12, 2020) <https://ampr.gs/3estMJJ>; Paul Kiel, "It's Getting Worse: The IRS Now Audits Poor Americans at About the Same Rate as the Top 1%," *ProPublica*, May 30, 2019.

<sup>4</sup> Treasury Inspector General for Tax Administration, "High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service," (May 29, 2020) <https://bit.ly/3ndrCk4>.

<sup>5</sup> See, e.g., Paul Kiel, "The IRS Decided to Get Tough Against Microsoft. Microsoft Got Tougher," *ProPublica*, Jan. 22, 2020. Jesse Eisinger and Paul Kiel, "The IRS Tried to Take on the Ultrawealthy. It Didn't Go Well," *ProPublica*, April 5, 2019.

<sup>6</sup> 2010 IRS Data Book, Table 18; 2019 IRS Data Book, Table 24.

<sup>7</sup> CBO, "Trends in the Internal Revenue Service's Funding and Enforcement" (July 2020) <https://www.cbo.gov/publication/56467>.

<sup>8</sup> Department of the Treasury, The Budget for Fiscal Year 2017, <https://bit.ly/2GDXTkU>.

<sup>9</sup> Natasha Sarin, Lawrence H. Summers, and Joe Kupferberg, Tax Reform for Progressivity: A Pragmatic Approach, (The Hamilton Project Jan. 2020) (Chapter 7 of "Tackling the Tax Code: Efficient and Equitable Ways to Raise Revenue") <https://bit.ly/36fQd17>.

<sup>10</sup> Paul Kiel, "It's Getting Worse: The IRS Now Audits Poor Americans at About the Same Rate as the Top 1%," *ProPublica*, May 30, 2019.

<sup>11</sup> Brentin Mock, *IRS Audits Target the Wealth-Depleted Southern Black Belt*, BLOOMBERG CITYLAB (April 3, 2019) <https://bloom.bg/351oKRj>;

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<sup>12</sup> Institute on Taxation and Economic Policy, “Adequately Funding the IRS Would be One Small Step Toward Racial Equity in the Tax Code,” (July 10, 2020) <https://bit.ly/3mXookE>.

<sup>13</sup> See, e.g., Rachel Sandler, “FTC Probes Intuit Over Suspicions It Diverted TurboTax Users From Free Filing,” *Forbes* (Sept. 8, 2020) <https://bit.ly/3eyT1Kd>.

<sup>14</sup> See Center on Budget and Policy Priorities, “Regulating the ‘Wild West’ of Tax Return Preparation,” (April 26, 2019).