

**Joint Hearing on Minding the Tax Gap:
Improving Tax Administration for the 21st Century**

HEARING
BEFORE THE
SUBCOMMITTEE ON SELECT REVENUE MEASURES
AND THE
SUBCOMMITTEE ON OVERSIGHT
OF THE
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
ONE HUNDRED SEVENTEENTH CONGRESS
FIRST SESSION

June 10, 2021

Serial No. 117-

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COMMITTEE ON WAYS AND MEANS
Subcommittee on Select Revenue Measures
Subcommittee on Oversight
Joint Hearing on Minding the Tax Gap:
Improving Tax Administration for the 21st Century
Thursday, June 10, 2021
Witness List

Panel 1

Mark Mazur, Deputy Assistant Secretary for Tax Policy, U.S. Department of Treasury

Doug O'Donnell, Deputy Commissioner for Services and Enforcement, Internal Revenue Service

Panel 2

Dr. Janet Holtzblatt, Senior Fellow, Urban-Brookings Tax Policy Center

Steven Dean, Professor of Law, Brooklyn Law School

Nina Olson, Executive Director, Center for Taxpayer Rights



HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

ADVISORY

FROM THE COMMITTEE ON WAYS AND MEANS SUBCOMMITTEE ON SELECT REVENUE MEASURES SUBCOMMITTEE ON OVERSIGHT

FOR IMMEDIATE RELEASE
June 3, 2021
No. SRM-3

CONTACT: (202) 225-3625

Chair Thompson and Chair Pascrell Announce Joint Hearing on Minding the Tax Gap: Improving Tax Administration for the 21st Century

House Ways and Means Select Revenue Measures Subcommittee Chair Mike Thompson and Oversight Subcommittee Chair Bill Pascrell, Jr. announced today that the Subcommittees will hold a joint hearing on “Minding the Tax Gap: Improving Tax Administration for the 21st Century” on Thursday, June 10, 2021 at 12:00 PM EDT.

This hearing will take place remotely via Cisco WebEx video conferencing. Members of the public may view the hearing via live webcast available at www.waysandmeans.house.gov. The webcast will not be available until the hearing starts.

In view of the limited time available to hear witnesses, oral testimony at this hearing will be from invited witnesses only. However, any individual or organization not scheduled for an oral appearance may submit a written statement for consideration by the Committee and for inclusion in the printed record of the hearing.

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Please Note: Any person(s) and/or organization(s) wishing to submit written comments for the hearing record can do so here: WMdem.submission@mail.house.gov.

Please ATTACH your submission as a Word document, in compliance with the formatting requirements listed below, by the close of business on Thursday, June 24, 2021.

FORMATTING REQUIREMENTS:

The Committee relies on electronic submissions for printing the official hearing record. As always, submissions will be included in the record according to the discretion of the Committee. The Committee will not alter the content of your submission, but reserves the right to format it according to guidelines. Any submission provided to the Committee by a witness, any materials submitted for the printed record, and any written comments in response to a request for written comments must conform to the guidelines listed below. Any submission not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

All submissions and supplementary materials must be submitted in a single document via email, provided in Word format and must not exceed a total of 10 pages. Witnesses and submitters are advised that the Committee relies on electronic submissions for printing the official hearing record. All submissions must include a list of all clients, persons and/or organizations on whose behalf the witness appears. The name, company, address, telephone, and fax numbers of each witness must be included in the body of the email. Please exclude any personal identifiable information in the attached submission.

Failure to follow the formatting requirements may result in the exclusion of a submission. All submissions for the record are final.

ACCOMMODATIONS:

The Committee seeks to make its events accessible to persons with disabilities. If you require special accommodations, please call (202) 225-3625 in advance of the event (four business days' notice is requested). Questions regarding special accommodation needs in general (including availability of Committee materials in alternative formats) may be directed to the Committee as noted above.

Note: All Committee advisories are available [\[here\]](#).

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Chairman Thompson. Good morning, good afternoon, and welcome to everyone. Thank you for joining us today.

We are holding this hearing virtually, in compliance with the regulations for remote committee proceedings pursuant to House Resolution 8.

Before we turn to today's important topic, I want to remind members of a few procedures to help you navigate this platform.

First, consistent with the regulations, the committee will keep microphones muted to limit background noise. Members are responsible for unmuting themselves when they seek recognition or when recognized for their 5 minutes.

Second, members and witnesses must have their cameras on when they are present for the hearing. If you need to step away from the proceedings, please turn off your camera and your audio rather than logging out.

In the event that I have technical difficulties or need to step away, Oversight Subcommittee Chairman Pascrell will take over as chair until I return.

And finally, since this is a joint hearing of the Select Revenue Measures and the Oversight Subcommittees, without objection, the chairs and the ranking members of both subcommittees will be permitted to offer an opening statement.

Further, without objection, members will be recognized for questioning in the order of seniority on their respective subcommittees, alternating between the two. Members have been provided with this order in advance of the hearing.

Finally, after members of each subcommittee have completed their questioning, I will recognize members from off the subcommittees who have waved onto this hearing in order of full committee seniority.

Without objection, consistent with all other subcommittee hearings, the rules of the Committee on Ways and Means and the rules of the House apply in today's hearing.

And, with that, I will now turn to the topic of today's hearing.

Today's hearing that the Select Revenue Measures Subcommittee is holding jointly with Mr. Pascrell's Oversight Subcommittee focuses on the growing gap between taxes owed to the government and taxes actually paid. This is commonly referred to as the tax gap. The tax gap is an important indicator for how well our tax system functions and reducing it is a central part of the IRS' mission to fairly administer and enforce our tax laws.

However, over the past decade, the IRS has been starved of resources to go after a significant contributor to the tax gap -- wealthy taxpayers -- who can use sophisticated methods to evade taxes and whose income is not subject to reporting requirements.

Instead, facing budget cut after budget cut, the IRS has relied heavily on current information reporting to audit working Americans who have more straightforward returns.

Without the funds to train enforcement staff or upgrade its technology, the agency has been fighting a losing battle against well-armed taxpayers who can create complicated partnerships, structures, or send their assets overseas.

I hope this joint hearing is an opportunity to review our current system and the disparities it creates and to examine the administration's proposals on how to provide the IRS with the resources it needs to properly enforce our tax laws and best serve our taxpayers.

Put simply, the IRS doesn't have the tools it needs to effectively meet today's challenges.

Its information technology system is the oldest in the Federal Government.

It has fewer auditors than any time since World War II, and as a result the audit rates for taxpayers making over \$1 million in income have fallen by almost 80 percent.

The agency has lost many experienced revenue agents who handle time-consuming, complex issues.

Finally, IRS staff have had to do more with less while still striving to meet high levels of service, feeding into a cycle of decreasing morale and attrition.

Fortunately, the Biden administration understands that a fair and effective tax system requires the IRS have adequate resources. That is why it proposes sustained investments to improve enforcement efforts, including an appropriate number of skilled agents who can pursue wealthy taxpayers that evade taxes using complex schemes.

The administration also knows that an important component of shrinking the tax gap is comprehensive information reporting that can shine a light on the opaque income streams of these taxpayers, like proprietorship and partnership business income.

None of this can be done efficiently without overhauling and modernizing the IRS' outdated information technology system.

Finally, increased resources and enforcement does not mean that we should stop asking how we can make our system better. There must be a sustained focus on reducing disparities in the treatment of different taxpayers and providing better taxpayer service so that Americans who do comply with the law can feel assured that the tax system is fair and efficient.

It is not just our subcommittees and the Biden administration that think it is time to tackle this issue. Yesterday, five former Treasury Secretaries, who served under both Democratic and Republican administrations, agreed we need to act.

In a jointly authored op-ed published in the New York Times titled, quote, "We Ran the Treasury Department. This is How to Fix Tax Evasion," they write, and I quote:

"We know firsthand the challenges dedicated IRS employees face each day as they work to administer tax laws while hamstrung by inadequate funding and support.

"Reasonable people can disagree on the magnitude of particular tax rate increases. But on this issue, all should agree, including Members of Congress of both parties: Giving the IRS the tools

it needs to improve compliance will raise significant revenue and create a fairer, more efficient system of tax administration."

Without objection, this op-ed piece is inserted in the record.

[\[The information follows:\]](#)

Chairman Thompson. Americans feel more confident paying their taxes if they know that everyone else is paying what they owe and that the tax laws are fairly enforced.

I look forward to hearing from our witnesses and working with the administration and colleagues to improve IRS efficiency, ensure there is no additional burden on honest taxpayers, and make the tax system more equitable.

Thank you.

And, with that, I will recognize Ranking Member Mr. Smith of Nebraska for the purposes of an opening statement.

[\[The statement of Chairman Thompson follows:\]](#)

Mr. Smith of Nebraska. Thank you, Mr. Chairman, for the time. I appreciate that we are taking this time to further investigate the administration's tax enforcement proposals and their potential impacts on our economy.

We agree it is fundamentally unfair that the vast majority of Americans pay their taxes accurately and on time, but some people don't.

Our system of voluntary compliance works because Americans believe their friends and neighbors are also following the rules. Our system should recognize that by not further burdening the families, farmers, ranchers, and small businesses, who already put substantial time and resources into following the law.

We should work in a bipartisan fashion to find ways we can better track down those who cheat the system without undermining bipartisan successes in bringing accountability to the IRS, like the Taxpayer First Act.

That said, I come into this hearing with concerns about President Biden's compliance proposal on a number of fronts.

I am very skeptical about the IRS' projected return on investment. The administration is promising to bring in nearly three-quarters of a trillion dollars over the next decade with its proposal. That estimate relies on an assumption that \$80 billion in new funding would raise more than five times that in newly collected revenue.

However, the Congressional Budget Office has previously estimated 2.5 to 1 return rate on additional IRS enforcement, which would net only about 200 billion from those dollars.

Second, I have serious concerns about establishing a mandatory funding stream for the IRS. We have a strong track record in Congress of establishing and sticking to pathways for more predictable funding for agencies, whether it is prefunding the Department of Veterans Affairs or Corporation for Public Broadcasting or working to double NIH funding over time.

I would be glad to work with appropriators in a bipartisan fashion to find a way to give IRS and other agencies more long-term certainty so they can plan for their staffing needs.

At the same time, that certainty should come through regular appropriations to ensure we continue to have proper oversight of the agency when issues arise, whether it is printers without toner or rogue employees leaking taxpayer data to the press.

We should also keep in mind any time we ask the IRS to devote resources to mailing monthly checks or providing insurance subsidies, those are resources that can't go to enforcement or customer service.

My biggest concern, however, is that this proposal falls in line with other problems with the President's tax agenda, all of which I would characterize as, quote, "fairness run amok," end quote.

As we discussed in our last SRM hearing, the administration's proposals to repeal stepped-up basis and tax capital gains cover for the fact that they have chosen to pursue a punitive capital

gains rate, in the name of fairness, instead of one that maximizes the revenue or economic activity.

The G7 minimum corporate tax proposal, engineered by Secretary Yellen, as well as SHIELD, only serve as cover for the administration's desire to hike our corporate tax rate in the name of supposed fairness instead of recognizing that corporate tax reform under the Tax Cuts and Jobs Act make the United States a more desirable place to create jobs, while also stopping corporate inversions.

And now, today, we are reviewing President Biden's proposal to install 90,000 new government bureaucrats to harass American businesses, farmers, and ranchers, because he finds unfairness in the fact that our Tax Code provides various options for how to organize and pay taxes as a small business, just as most modern economies do.

While it is easy to understand why the President might think the only reason to set up an S corporation is to avoid Medicare taxes on book royalties or speaking fees, that is not the primary reason why small businesses organize themselves in that way.

There are areas where we can work together in a constructive way to modernize enforcement of our Tax Code, for example, by setting specific and clear, consistent rules and procedures for the taxation of cryptocurrency in a manner which doesn't discourage American innovation in this new industry. That should be our focus.

Thank you again, Mr. Chairman. I am looking forward to the administration explaining their proposal and to hear varying perspectives on it.

I yield back. Thank you.

[\[The statement of Mr. Smith of Nebraska follows:\]](#)

Chairman Thompson. Thank you, Mr. Smith.

And now I will recognize the chairman of the Oversight Subcommittee, Mr. Pascrell, for the purposes of an opening statement.

Chairman Pascrell. Thank you, Chairman Thompson.

We are pleased to be holding the joint hearing today on the pervasive tax gap and improving the tax administration to address it.

The tax gap, or the measurement of the difference between what taxpayers owe and what they actually pay, has become pretty, pretty significant, I think you would say. This gap matters immensely as we come to terms with a Tax Code that fosters one system for the wealthy and another system for average Americans.

The disclosure this week that some of the wealthiest Americans pay barely any tax was shocking, but not surprising. The revelation should give us greater urgency to address fairness in our tax laws. That is what we are looking for, I would believe, and I have talked to you many times about this. I know what you are looking for.

I don't know what other people are looking for when they talk about harassment or when they talk about people -- this is a voluntary system. We know it is a voluntary system. And we certainly can't look back to 2017 and say that was the beginning of tax reform. That would be comical.

I am looking forward to the testimony of our witnesses, starting with representatives from the Biden administration. President Biden has put forward an aggressive agenda to improve compliance. The President's plan to rebuild the IRS will enable the IRS to engage in more effective enforcement, particularly for wealthy scofflaws.

I want to hear more detail from Assistant Secretary Mazur and Deputy Commissioner O'Donnell, two great servants in this country.

We are also fortunate to have witnesses who are experts in the academic and private sectors to help us evaluate what Congress should do and can do to produce real results to narrow the tax gap.

Any changes we consider, however, must do so in a way that is fair and preserves fledgling taxpayer confidence in our voluntary compliance system.

To me -- and I can only speak for myself on this, Mr. Chairman -- to me, tax fairness does not mean bludgeoning the more wealthy. That is not where I am coming from, and I want you to know that.

One way to improve taxpayer confidence is effective taxpayer assistance. So many people need help. Rather than going to pay somebody to help them, we should provide information on this very important task of increasing the revenue for this Nation so it can spend wisely.

Taxpayers need guidance in preparing their returns and paying their taxes. IRS should do more to help as a matter of fairness. It is like having a million lawyers that can be at your beck and call. And most of the middle class -- and, obviously, others -- have no lawyers that they can turn to when they are dealing with the IRS.

Admittedly, decades of underfunding and the pandemic wreaked havoc on this function, but we must quickly rebuild it.

A corollary of this is ensuring that tax return preparers are qualified in the first place. I am eager to learn more about how the Biden administration's tax return preparer regulation will advance our goal.

And finally, I believe that transparency and accountability are the building blocks of what I would consider effective tax administration.

This committee continues to wait for the administration to respond to our legal requests under Code Section 6103 for the former President's tax returns. The request was, to many, weird 4 years ago, but it is not weird. We have a right under 6103. It is very clear.

We may have an illegal leak or a hack of private citizens' tax return information. And, as Oversight chair, I have asked the IRS to fully investigate, as I did in a conversation with Mr. Rettig yesterday. I expect a prompt and transparent response.

I yield back, Mr. Chairman, and look forward to our witnesses' testimony.

[\[The statement of Chairman Pascrell follows:\]](#)

Chairman Thompson. Thank you, Mr. Pascrell.

And I recommend Mr. Kelly for the purposes of an opening statement.

Mr. Kelly. Thanks, Mr. Chairman.

And good afternoon to everybody.

And thank you for holding the hearing today on the tax gap.

I want to begin by addressing the news this week of an unacceptable and criminal leak of confidential taxpayer information to ProPublica.

ProPublica claims that it was provided a vast trove of Internal Revenue Service data on the tax returns of thousands of the Nation's wealthiest people, covering more than 15 years.

This is a shocking breach of taxpayer privacy and should cause all of us serious concern and, quite frankly, every American taxpayer. This is the second high-profile unauthorized disclosure of taxpayer information to the press in less than a year.

Now, if this can happen to the wealthiest American -- or even the President of the United States -- it could happen to any American taxpayer. I would like to hear from both our panels and witnesses today about what is being done to get to the bottom of this and make sure that any IRS employee that leaked this information is prosecuted.

I don't know how many of you had a chance to read the op-ed in The Wall Street Journal the other day, but it does shed a lot of light on how is it that all this information that is supposedly so guarded and so private, it is leaked out there. They have 15 years, 15 years of information that they are willing to expose? This is incredible.

But they don't know where they got it from. I guess it just showed up on their doorstep one morning and they opened it up and were just surprised what was in that.

So this tax gap that we are going to talk about today, and tax enforcement, Commissioner Rettig recently cast some doubt on the accuracy of the IRS tax gap estimate. And this should be a concern to all of us, because we need to have an accurate tax gap estimate to be able to make informed policy choices.

So I look forward to hearing from our witnesses today about what the IRS is doing to develop a more accurate and more timely tax gap estimate. The only way to know whether we are closing the tax gap is to have an accurate way to measure the tax gap.

And I am sure today's hearing will also address President Biden's tax enforcement plan. My understanding is that the administration is looking to put another \$80 billion into the IRS over 10 years for enforcement, and this is going to include the hiring of something like 87,000 new IRS employees over the same time period.

Now, every American should pay all the taxes they owe and the IRS should conduct smart and efficient tax enforcement. But throwing \$80 billion at the program -- at the problem -- without a

clear plan or a clear demonstration that the agency can use that money effectively is not the right approach.

Now, the administration's claim that it will be able to audit its way to \$700 billion in new revenue over 10 years, it doesn't sound realistic to me.

Now, I was proud to work with the late John Lewis, as I know all of us were, on reforming the IRS through the bipartisan Taxpayer First Act. That law was designed to focus the IRS on actually serving American taxpayers and providing excellent customer service.

Which, by the way, while we are all together, you and I both know that our staffs did an incredible job picking up the ball and helping out taxpayers all across our districts, because the IRS was working from home and was not able to do some of the things it needed to do. In fact, they couldn't answer all the phone calls.

Our staffs stepped it up. Each one of us, each one of us are really blessed with a group of people who really do serve our American citizens.

Now, most Americans want to pay the taxes they owe, but have a tough time when questions arise and they can't get through to the IRS for help.

Now, we need to make it easier, which is why we required the IRS to create a customer service strategy in the bipartisan Taxpayer First Act.

President Biden's plan seems to turn its back on that approach. Instead, the administration wants to build an army of IRS agents that will seek to squeeze every dollar possible out of the American people.

And, again, I come back to it: Every single penny we spend comes out of some hardworking American taxpayer's pocket. We have a tremendous obligation to them, as they do to the country.

It baffles me that the administration is asking for \$80 million for enforcement when there are over a million 2019 tax returns that are still unprocessed and millions more held up in error resolution. I have constituents still waiting on refunds they should have received a year ago, and there are millions of taxpayers across the country waiting on the IRS.

We have a taxpayer service crisis at the IRS, and yet the administration only can talk about the enforcement, not the service end of it, but the enforcement end of it.

And, of course, we need to improve the IRS enforcement as well. I understand that. There are smart and targeted ways we can do that.

And I like to think that we can all work together, as we did and as I did with Mr. Lewis, one of the most incredible people I think I have ever come in contact with in my life, not just here in the Congress, but I am talking everyday life. And his whole purpose was in service, service not only to his district but to the country.

The Taxpayer First Act was an incredible attempt to do exactly that, and that was to provide great service to the American people and our hardworking American taxpayers. A partisan spending spree, though, is not the way to get the job done.

And in closing, I want to thank all our witnesses on both panels and all members for being present today. We can do this together. We can work on this together. We can get the situation cleaned up. And we can get to a point where everyday Americans go to the mailbox and get a letter, and if they see in the corner that it was sent by the IRS, they don't right away become scared about, "Oh, my God, what is happening now? What am I going to be on the line for?"

So that is what we need to get to.

With that, I am willing to work with all of you on every one of those issues. And I am going to yield back, and I would love to hear from our two panels.

Thank you.

[The statement of Mr. Kelly follows:]

Chairman Thompson. Thank you, Mr. Kelly.

Without objection, all members' opening statements will be made part of the official record.

Thank you to our witnesses for taking the time to appear before us today to discuss this very important issue.

We will hear from two panels today, with an opportunity for members to question each panel separately.

For our first panel, I would like to introduce two witnesses.

Mark Mazur is the Deputy Assistant Secretary for Tax Policy, Office of Tax Policy, at the U.S. Treasury Department. He was most recently the Robert C. Pozen Director of the Urban-Brookings Tax Policy Center, a position he held starting in 2017.

Doug O'Donnell is the Deputy Commissioner for Services and Enforcement at the IRS. Previously, he was the Commissioner of the Large Business and International Division of the IRS, where he also served as the U.S. Competent Authority.

Each of your statements will be made part of the record in its entirety. I would ask that you summarize your testimony in 5 minutes or less.

To help you with that time, please keep an eye on the clock that should already be pinned to your screen. If you go over your time, I will notify you with a tap of the gavel.

And, with that, Mr. Mazur, you are recognized for 5 minutes. You may proceed.

STATEMENT OF MARK MAZUR, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, U.S. DEPARTMENT OF TREASURY

Mr. Mazur. Chairman Thompson, Chairman Pascrell, Ranking Member Smith, Ranking Member Kelly, and members of the subcommittees, thank you for inviting me here today to discuss tax compliance and the administration's tax compliance agenda.

We all know that improving tax compliance can help us build a tax system that raises the necessary revenue for the Federal Government in an equitable and efficient manner.

As was noted in the opening statements, the Internal Revenue Service has estimated the amount of noncompliance with the Federal tax system for decades. This measure of noncompliance is called the tax gap, and it is defined as the difference between the overall true tax liability and what is paid on time and voluntarily.

For 2011 to 2013, the IRS estimates the gross tax gap to average around \$441 billion per year. When late payments and enforcement collections are taken into account, the average annual tax gap is estimated to be about \$381 billion for that time period.

If we just take those numbers, though, and extrapolate them to today, assuming that the estimate of the gross tax gap grows with the economy, the estimated tax gap would be around \$580 billion for 2019. And over the coming decade, if we use the same sort of estimates, the gross tax gap is projected to total \$7 trillion. Obviously, that is a lot of money.

In part, the large and growing tax gap is the result of a sustained period of underinvestment in the IRS. The IRS' budget has been reduced by about 20 percent in real terms over the last decade. And since the IRS budget largely covers personnel, staffing dropped, and there was a steep decline in audit rates.

At the moment, the IRS has insufficient resources to adequately meet enforcement and service challenges.

The administration's fiscal year 2022 budget and the American Families Plan proposes a transformative investment in the resources and information available to the IRS, and the program has several key components.

First, the program would provide the IRS with the resources needed to address noncompliance and serve taxpayers. In addition to the annual discretionary funding, a sustained multiyear funding stream would provide nearly \$80 billion in additional resources to the IRS over the next decade.

And the multiyear nature of this funding provides the certainty required to make investments in both high-quality enforcement staff and modernized information technology, but also to build a strong human capital office and assemble talented research teams.

The second component is to invest in better IRS technological systems that would help identify noncompliance and improve customer service. The IRS too often relies on antiquated and siloed systems, and this funding will allow the IRS to address its technology challenges in a way that would essentially be an upgrade to what we expect from modern financial institutions.

The third component of the plan is to improve information reporting, to give IRS better information on opaque sources of income.

When the IRS has good information reporting, like for a W-2 taxpayer, the compliance rates of that income, they are reported about 95 or 99 percent accurately. When there is no information reporting, compliance rates can drop to 50 percent.

And you all know strengthening third-party reporting is one of the most effective ways to improve compliance. So the administration's proposal would require financial institutions to report account information to the IRS and the taxpayer, in particular providing information about total inflows and outflows into financial accounts.

This would allow the IRS to better target enforcement to detect obvious errors of gross noncompliance, but also would decrease the likelihood that fully compliant taxpayers would be subject to audit.

A fourth component would undertake complementary proposals to improve tax administration, and the budget includes a number of these, including giving the IRS the ability to regulate paid preparers.

Together, these proposals would generate many benefits. One, they would raise around \$700 billion of revenue over the course of a decade. But they also would create a fairer tax system, a more efficient tax system, and would improve customer service.

It is important to recognize that the administration's tax compliance proposals are complementary and they work together to create a more efficient and equitable tax administration system.

When the IRS is adequately funded, they can use the information that they collect more efficiently. When they collect more information, they can better utilize those enforcement resources. And similar complementarities exist between well-trained enforcement personnel and modern information processing systems.

Now, look, we all believe that taxpayers should pay the amount of tax they legally owe under the laws that Congress passed. Today, there is a large gap between that belief and the tax compliance reality we observe.

The compliance proposals contained in the administration's budget take important steps toward narrowing that gap, and we look forward to working with Congress to address this longstanding problem.

That concludes my testimony. I look forward to your questions.

[The statement of Mr. Mazur follows:]

Chairman Thompson. Thank you, Mr. Mazur.

Mr. O'Donnell, you may proceed.

STATEMENT OF DOUG O'DONNELL, DEPUTY COMMISSIONER FOR SERVICES AND ENFORCEMENT, INTERNAL REVENUE SERVICE

Mr. O'Donnell. Thank you.

Chairmen Thompson and Pascrell, Ranking Members Smith and Kelly, and members of the subcommittees, thank you for the opportunity to appear before you today and for your support of our efforts on behalf of the American people.

Last month, I became the Deputy Commissioner for Services and Enforcement at the IRS. Before stepping into this role, I spent several years as the Commissioner of our Large Business and International Division.

I appreciate this opportunity to discuss current and future IRS efforts to reduce the tax gap, ensure the integrity of our system, and improve tax administration for the 21st century.

Reducing the tax gap requires a multiyear, consistent, significant investment in our modernization, service, enforcement, and compliance efforts to help us deliver meaningful services to taxpayers, conduct critical enforcement initiatives, and support long-term IT modernization efforts that help improve both service and compliance.

We want to help taxpayers attempting to comply and appropriately pursue those who willfully refuse to fulfill their tax obligations or commit tax fraud. These enforcement efforts support compliant taxpayers.

Operating with limited resources, our entire workforce is dedicated to doing the very best we can. This includes employees who develop forms, instructions, and publications, answer taxpayer questions in person or on the phone, develop digital self-help tools, process e-file and paper returns, and audit returns, collect taxes owed, and investigate tax fraud.

But we have struggled to keep pace with change, the size of the economy, the number of taxpayers that we serve, the complexity of the law, and the digital nature of new and emerging global economic interactions.

Our ability to deliver on our mission has been limited by the level and inconsistency of funding that we receive. To remain highly impactful going forward, the IRS must continue and expand focused examinations, and to do so we need to on-board many additional experienced, specialized examiners and appropriate levels of supporting personnel throughout the organization in areas such as Chief Counsel, Appeals, and the Taxpayer Advocate.

Further, all examiners -- indeed, all employees -- must receive the appropriate resources and ongoing training to enable them to perform at the highest levels. Additional resources will allow us to expand the nature and scope of these examinations.

The IRS has a difficult balancing act to constantly evaluate our approaches to reduce the tax gap. We use the information from the tax gap to help decide where to deploy our limited resources, to minimize burden on those that are compliant, and to concentrate on helping those who make mistakes, and then reaching those who choose not to comply.

The vast majority of taxpayers are paid wages that include withholding, and their compliance levels typically exceed 98 percent. We should not and do not want to burden them with any additional interaction with the IRS.

There are others, though, who simply do not report income, implement tiered partnerships or similar complicated structures, utilize opaque sources of income, or engage in certain offshore activities that increase the risk of noncompliance and adversely impact the fairness of our system.

Our challenge is better understanding those structures, income sources, and offshore activities that present the most risk, recognizing that the greatest risk is for those where there is little or no third-party reporting and the taxpayer does not report the activity, whether that is unintentionally or intentionally.

Thanks to the help of artificial intelligence, advanced data analytic strategies, and emerging tools, we are able to identify areas of noncompliance in ways that were impossible just a few years ago. With that said, there is room to further modernize this effort, and the IRS has requested funding to do just that.

In addition to improved services for taxpayers and increased tax enforcement, making further progress on the tax gap also requires policy and legislative changes to reduce tax law complexity, increase information reporting, improve IRS access to relevant data, and increasing authority in certain areas, such as regulating paid tax return preparers, as the President recently proposed.

The recent budget proposals from the administration will ensure that the system is enforced fairly, taxpayers receive the nature and quality of services they deserve, our systems are modernized to make better use of the data we collect, and that no one feels secure cheating on their taxes. We need your help to help us improve tax administration in a manner every American deserves.

This concludes my statement. I look forward to hearing from my co-panelists and responding to your questions.

Thank you.

[The statement of Mr. O'Donnell follows:]

Chairman Thompson. Thank you, Mr. O'Donnell.

Without objection, each member will be recognized for 5 minutes to question our witnesses on panel number one.

Please note that after all members have had an opportunity to question our first panel, we will turn to the second panel.

We will not observe the Gibbons Rule in this remote setting and will instead go in order of seniority, switching between majority and minority members.

Members are reminded to unmute yourself when you are recognized for your 5 minutes, and I will begin by recognizing myself.

Mr. Mazur, we have heard that the IRS has a lot of information about certain categories of income, but that other categories of income are subject to limited third-party information reporting.

According to IRS estimates of the tax gap, income and deductions subject to little or no information reporting are subject to incorrect reporting at a much higher rate than income that is verified by a third party.

What do we know about the distribution of the gaps in reporting by income level? Are certain categories of income that aren't subject to reporting more likely to be earned by higher income taxpayers?

Mr. Mazur. Thank you for the question, Chairman Thompson.

The IRS has done a lot of work looking at the relationship between income reporting and compliance. And as I mentioned earlier, if your income is reported on a W-2 form and there are taxes withheld, your compliance rates are somewhere around 99 percent reporting that income correctly.

If there is no information reporting, like for a sole proprietorship or for rental income or something like that, that income is reported with about a 50 percent accuracy rate. So there is this big gap between them.

And you asked about the distributional analysis. Well, most Americans have the majority of their income from wage and salary income, and so those folks are reporting it at very high rates. But if your income comes from partnership income or a subchapter S corporation or a closely held business, they tend to be less compliant, on average, and those sources of income tend to be more associated with higher income taxpayers.

And so there is a distributional component as well. It is not dispositive that every high income person has income of these sources that are underreported, but the tendency is along those lines.

Chairman Thompson. Thank you.

Mr. O'Donnell, regarding the administration's information reporting proposal, how will information reporting from financial institutions, payment settlement entities, and crypto asset exchanges assist the IRS with its enforcement efforts? What does the agency plan to do with the information it collects? And what resources will it need in order to implement that regime?

Mr. O'Donnell. Thank you, Chairman Thompson.

First off, any questions regarding the legislation will require us to actually have an enacted bill. But what I would say -- and it tracks what was the reporting -- that the better information that we have regarding taxpayer activities, the more likely we are to be able to spot instances where taxpayers are fully compliant and that we do not need to take any further action with them and those who appear to have a risk of noncompliance. And we have done quite a bit of work with our systems to be able to improve our analysis in this space.

What I would say, though, is that it is important for me certainly to report that in reflecting on other information reporting regimes that we have got, and I am thinking about FACA, where there was a lot of additional information that came into the Internal Revenue Service, but because we were not fully funded to be able to build out a system that took in the information and fully analyzed it and we did not have sufficient analysts in the agency to work with it, that we were not capable of taking full advantage of the information that we received.

So what I would say is that as we work through this proposal and as it is enacted, it is going to be very important that we do have funding that allows us to build the system to ingest the information and analyze it, and that we have got the appropriate analysts in the agency to take action with that information so that we can appropriately identify those who require no further attention and identify those that do require additional attention on our part.

Chairman Thompson. Thank you.

And is it accurate that the IRS has the oldest technology system in the known world?

Mr. O'Donnell. Chairman, I am unable to comment on that. I am an accountant. But I have heard enough people report on it where I do think it is likely that our systems do require a great deal of modernization.

And I personally have grappled with the inability to easily add new tools onto our system, because of the age of it. And that does impair our ability to rapidly respond to evolving opportunities to use information and improve service to taxpayers.

Chairman Thompson. Mr. Mazur, do you have a comment on that?

Mr. Mazur. I would just like to follow up a little bit on the question about how that information will be used and just to kind of give you like a quick little example.

If you have a taxpayer with \$25,000 of inflows and \$25,000 of outflows from their accounts and their income is reported at \$25,000, then there is no need to audit them. And that is exactly what Doug O'Donnell talked about.

But instead, if there is a million dollars of inflows and outflows in their accounts and \$25,000 of income reported, then that is something that you want to look at further. And that really is what the information reporting is intended to get at, those situations of gross noncompliance that deserve some attention.

Chairman Thompson. Thank you.

And is it true that the Smithsonian has dibs on your technology if we provide money to update?

Mr. Mazur. So one of the things that is interesting about the IRS technology is a lot of the programming still occurs in COBOL, which was an old language when I was an undergrad.

Chairman Thompson. I think it was an old language when all of us were undergrads.

Thank you very much.

Mr. Smith, you are recognized for 5 minutes.

Mr. Smith of Nebraska. Thank you to both of our witnesses for appearing today. There are a lot of unanswered questions about the administration's tax proposals across the board, and this is, I think, a great opportunity to try to answer them.

While your focus today has been on proposals to close the tax gap from the collection side, much of the President's tax plan seems to come from the viewpoint that government isn't sufficiently taxing farms and small businesses and that this needs to be addressed for the sake of fairness, regardless of the impact on job creation and our economy.

The administration's recent budget release proposed repeal of so-called stepped-up basis, in effect creating a second death tax layered on top of the existing death tax.

I didn't just start hearing about this, the concerns about the proposal when the President made it, but long before. I am now hearing serious concerns from ag producers and small business owners, who spend a lot of time and money already paying their taxes, figuring their taxes, and sending in payment, and that the IRS would be focusing a lot more time and resources coming after them, costing them even more.

The second death tax that we are reading about will affect millions of families, because the minimum threshold is so low.

I am wondering how much additional IRS resources will be needed to enforce this provision, including audits of small businesses and farms and addressing the valuation of assets, in some cases acquired many decades ago.

And also, can you please explain the provision that empowers the IRS to place a lien on the assets of a family farm or ranch or other family business when the head of a family dies? Can you explain that, either Mr. Mazur or your colleague?

Mr. Mazur. Mr. Smith, I will take a crack at the question, and then Doug O'Donnell can follow up on this.

So on the question that you asked about the step up in basis proposal that is in the administration's budget, the basic idea here is to tax wealth and labor income at roughly the same rate, so people who earn their income from capital and people who earn their income from wages have roughly the same tax burden.

One of the loopholes in the current tax system is that taxpayers have an ability to accrue capital gains over a long period of time, never sell those assets, never realize the gains, and pass them on to their heirs without ever having paid tax on that accrued increase. And that is an obvious inequity between people who are in different circumstances. And what the stepped-up basis proposal is attempting to do is to get at that.

And so if a person sold an asset, they would pay tax on the capital gain that they realized. In the case of a taxpayer who dies with a substantial amount of unrealized gains, those gains would be subject to tax.

There are special rules in the provisions, as outlined in the Treasury Green Book, that deal with family businesses and family farms, to ensure that taxpayers don't need to feel as if they have to sell the asset in order to settle the tax debt. There would be provisions in place to either allow payment to occur over time or to be delayed until that business or farm is sold.

And I will leave it to my colleague to talk a little bit about the lien on estate taxes.

Mr. Smith of Nebraska. Mr. O'Donnell?

Mr. O'Donnell. Thank you, Ranking Member Smith.

A quick point on that. First off, before we would ever move to a lien or a levy, there are a series of notifications and opportunities for taxpayers or their representatives to interact with the Internal Revenue Service, so that the taxpayer is afforded every opportunity to take an appropriate step or arrangements to resolve the issue.

Look, I am very happy to spend time with your team to understand more clearly the question and make sure that we provide the type of information that would be useful to you and to your constituents on that issue, and would be happy to schedule time with your staff to work on that.

Mr. Smith of Nebraska. Well, I appreciate your offer there, and we can look into that.

My underlying concern is that the IRS contains an immense amount of power. I was at the airport a while back and I noticed where there was an IRS agent who was empowered to walk around the magnetometers at the airport, because they had the power to do so.

I am very concerned. Even the Clinton administration pulled back on the aggressiveness of the IRS triggering audits, because it was agreed upon across the political spectrum that harassment was taking place.

I think we need to be very careful. I remember the hearings, Lois Lerner exerting her power -- she would probably describe that as fairness too -- in the manner that she did and how inappropriate it was. And I appreciate my Democratic colleagues at the time for acknowledging how inappropriate that application of power was on the part of Ms. Lerner.

So I hope we can work together to address the tax gap that I do believe exists, perhaps with different numbers. But, like I said, I just hope we can work together to make sure that what we are doing is the right thing and that the power of the Federal Government is appropriately enacted and applied across our economy.

Thank you, and I yield back.

Chairman Thompson. Thank you, Mr. Smith.

I recognize Mr. Pascrell for 5 minutes.

Chairman Pascrell. Thank the chairman.

Mr. Mazur, thank you for joining us today. As Assistant Secretary, I know of your work in the past. You are a true servant. Yourself and O'Donnell are really what we look for in who works for the taxpayer.

Mr. Mazur, the release of the purported tax return information of a number of wealthy taxpayers just 2 days ago highlights the fact that we have two different tax systems, one for the wealthy, in which they seem to be able to avoid taxes altogether, many times legally -- that doesn't in any manner, shape, or form shade the problem -- and another for the average American worker, who has taxes withheld from wages -- ah -- on a regular basis throughout the year.

How will the President's budget proposals specifically address this growing inequality?

Mr. Mazur. So, Mr. Pascrell, first, thanks for the compliment, and it is great to see you again.

The President's proposals really try to equalize the treatment of income from labor and income from capital. And that is, at a basic level, what is trying to occur here.

So the President proposes to increase the tax rate on capital gains income for those with the most, largest amounts of capital gains to be equivalent to the same rate that they would have on wage income.

And similarly, as I was just discussing with Mr. Smith, the proposal to have step up of basis at death is a way to equalize the treatment of income from capital assets and income from wages.

And so that really is an underlying theme of a number of the budget proposals, is to create that equalization.

Chairman Pascrell. And you would admit in the last 40 years the persuasion has moved in the positive direction for those who primarily have capital assets to the expense, I believe -- this is my opinion -- of those who get wages every week. Would you agree with that?

Mr. Mazur. We have seen growing inequality of income and wealth over a large number of years, and much of that is occurring at the very tiptop of the income distribution, where there has been larger gains than at, say, the median level. So that is relatively true, yes.

Chairman Pascrell. Let me ask my second question. I wonder if you can update me and the members on the status of the committee's request for the former President's tax returns. I am

hoping the administration has seen the light on our Section 6103 request. You and I have talked about this before. Where are we now?

Mr. Mazur. So, Mr. Pascrell, this is something that I am personally not working this issue, but I understand that your committee staff and the Department of Justice attorneys are working through some of the details on this, and it is under active litigation.

Chairman Pascrell. Well, I am not asking you for personal information. I am simply asking.

Deputy Commissioner O'Donnell, I am concerned about the drop in audit rates for large corporations and wealthy taxpayers and a much higher rate than EITC recipients, and I am angry over that. I hope you are too.

Can you explain why this has occurred? And how will the Biden compliance proposal change that trend?

Mr. O'Donnell. Chairman Pascrell, first, I want to start by thanking you for the compliment at the opening.

First, I think it is important to correct the record out there. The rate of examinations of high-income individuals, for example, at the \$10 million level, is 8.1 percent. The rate of audit of EITC recipients is 1.12 percent.

And, frankly, the majority of examinations that we conduct of low-income individuals are a result of them claiming EITC. There is an exceptionally high misclaim or error rate in that population. It is roughly 25 percent.

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[1:00 p.m.]

Mr. Pascrell. And why is that?

Mr. O'Donnell. So there are a number of reasons for it. It is primarily due to the complexity of the law, the fact that taxpayers do not properly report their income.

There are basically three variables that drive the ability to claim the credit. It is the income level, it is the filing status, and it is that the dependent child resides with the claimant for more than 6 months.

It is not unusual for us to see instances where multiple individuals are claiming the dependent, even though only one person could ever claim -- I am sorry, the countdown clock is not working, so if I have exceeded my time I will speed up.

But in any event --

Mr. Thompson. Go ahead. You are fine. Go ahead.

Mr. O'Donnell. Thank you. Okay.

There can only be one person who can claim the dependent. But it is not unusual for more than one person to claim a dependent, and it is not unusual for multiple people to claim a dependent, which puts us into an environment where there are improper payments made.

And under the IPERA law, Improper Payments Elimination and Recovery Act, we are required to annually estimate what that is. And our sample of taxpayers is at 1.12 percent. There is a very large population of individuals that do claim the credit.

Not everyone who is eligible claims the credit, and we are working on educational outreach to make sure that those who know that they could, do claim it, and that we improve the understanding of those who are claiming it of what they need to do to ensure that they are the one who is entitled and eligible and does receive the credit and that they do not get caught up in the improper audit process.

Mr. Pascrell. Mr. O'Donnell, thank you very much for your testimony.

Thank you, Mr. Chairman.

Mr. Thompson. Thank you, Mr. Pascrell.

Now I will recognize Mr. Kelly, the ranking member, for 5 minutes.

Mr. Kelly. Thank you, Mr. Chairman.

My questions are going to be directed more to you, Mr. O'Donnell. And it really comes because of this disclosure the other day in ProPublica that appears that the data came from inside the IRS and it was disclosed in violation of the Federal law.

But one thing I think we all agree on, it really doesn't matter what party you represent. It really comes down to do we have faith and confidence and trust in the system that we use to collect our taxes from all our citizens. And it is called income taxes. It has nothing do with your wealth, but it does have to do with your income that was generated during that taxable year.

I really worry about what steps, Mr. O'Donnell, you think can be taken to find out about how this information got out there, the fact that there is 15 years of this that have been disclosed.

And I am going to go back to what I just said. If our fellow citizens believe that there is a double standard, believe that if somebody wants to weaponize the IRS, and if the IRS is in fact, while not at the top, but maybe somehow working along those same lines to say, "I will disclose stuff that will hurt somebody at some level," I don't care what party it is. If it happens to any American, it should be something we are all concerned about.

But once you lose that faith and confidence and trust in the system, then we go back to, well, some of these people aren't paying their fair share.

And I will tell you that most of the people I talk to, they are hardworking. Most of my district is all blue collar people. They are all blue collar people. And I don't care what stage of employment we are in, but they are hardworking American taxpayers. And they will say to me all the time, "I don't mind paying my fair share, as long as somebody else is paying their fair share," is what we are talking about with this tax gap.

But then when you get to a situation where it looks like the IRS has politicized and used information from the agency to take advantage of a political issue or agenda, then they are saying, "Whoa, whoa, whoa, whoa. Wait a minute. Wait a minute. That is not right. That is not supposed to happen." And yet it has happened. And it has happened far too often.

My question to you is, where do you think this information came from? And what can the agency do?

Mr. O'Donnell. Ranking Member Kelly, first off, I want to say that I, we all, share your frustration, outrage at this. We are very, very concerned with the ProPublica reporting that they received IRS information from an unknown source.

IRS Commissioner Rettig, he actually immediately referred this matter to Russell George, who is the Treasury Inspector General for Tax Administration, when he first became aware of this. And it was right before he was heading up to a hearing on Tuesday morning with the Senate Finance Committee. The IG immediately confirmed receipt of the referral.

We are required, IRS employees are required to report to TIGTA immediately any instances of potential unauthorized access of taxpayer information or a disclosure of taxpayer information. So it is both, whether somebody accessed it or disclosed it.

TIGTA is the authorized Federal agency to investigate these potential violations, and the Commissioner requested that an investigation be initiated immediately.

Treasury announced yesterday that they made investigative referrals to their Office of Inspector General, as well as to the FBI and the United States Attorney's Office for the District of Columbia.

We fully support any investigation undertaken and will urge the investigative authorities to keep Congress appropriately informed of their findings.

I am unable to comment on whether there is an investigation underway at all, because it has been referred to the Inspector General. But we too want to know what happened urgently so that if there was any information obtained from us, we understand how, and we can immediately and appropriately respond to whatever happened.

We take very seriously the protection of information. It is part of our core culture. Every employee is instructed in the importance of protecting information annually. Every employee, from the top all the way down to the lowest graded employee, takes training regarding the prohibitions on unauthorized access to information, as well as sanctions for disclosing taxpayer information.

We have strong systems and measures in place to detect unauthorized access that are regularly reviewed by TIGTA.

I must reinforce, we take this matter very seriously and we will be pushing as hard as we can to ensure that we learn as soon as possible what actually did happen.

Mr. Kelly. Okay. I appreciate your answer. And Mr. Pascrell and I are very much concerned when it comes to oversight for every single American, whether they are at the top of the heap or at the very bottom of the heap. They need to have faith and confidence and trust in our system.

I would just suggest that this is not the first time this has happened. But I don't recall any significant penalties for the last time we saw that, with Ms. Lerner, that anything came forward from that.

So I think that is what further erodes, again, the trust that taxpayers have.

Mr. Thompson. The gentleman's time has expired.

Mr. Kelly. Thank you. I appreciate this, Mr. Chairman.

I recognize Mr. Doggett for 5 minutes.

Mr. Doggett. Thank you very much. And thanks to our witnesses.

Clearly, the tax gap is real. And I think it is important that we accept the recommendations of our witnesses and get them in place, along with supporting the broader Biden effort to get not only revenue from closing the tax gap, but to get equity.

Because our tax system relies mostly on voluntary compliance, when it becomes evident that many of the most prosperous people in the country are not fully complying, it discourages

compliance from those who are already recognizing the importance of having the revenues to support the greatest Nation in the world.

At the same time, I think it is very important, after years of hearing from Republicans that we could fund all the needs of government by simply eliminating waste, fraud, and abuse, a frequent campaign claim, that we as Democrats not substitute the tax gap as the solution for funding necessary initiatives.

It is a modest part. It is an important part. But really the biggest gap that we have is the gap between rhetoric and reality when it comes to all the loopholes that are in our current Tax Code.

David Cay Johnston, a Pulitzer Prize-winning reporter, wrote a book a few years ago that was entitled, "Perfectly Legal." It is the perfectly legal tax loopholes that the committee has failed to close that President Biden has made so central to the revenue proposals for his infrastructure bill that I think deserve even greater attention than the tax gap.

Specifically, this morning we have heard about individuals. I agree fully with Mr. Kelly in his comments that we need to be concerned about privacy and getting to the bottom of this disclosure.

But I would like to see an equal commitment from Republicans to the equity aspect, why it is right to have a Tax Code that facilitates multibillionaires paying little or nothing in a tax rate, while ordinary hardworking Americans -- a police officer, a nurse, a teacher -- are having to pay substantially more.

It is just not right, and we need to look at the substance, not just at the process here.

Let me ask the deputy who is testifying here today to comment on the corporate tax gap that exists and how much revenue you believe we are losing from the corporate tax gap, and whether it is done through various tax dodges that are legal or illegal, and why we need to focus on that, as well as individuals.

Mr. O'Donnell. Thank you, Congressman. I will start with this.

There is a significant amount of additional taxes owed by large corporations. The tax gap does not adequately measure some of the global activities that occur, and so offshore transactions are not necessarily picked up.

And what I would say is that my experience, my last job in large business and international, that we observed many -- well, there were a number of large corporate taxpayers who took advantage of many opportunities to plan into various countries around the world and structure their affairs in such a way where they minimized their tax. Perfectly legal.

But there were a number who did push the envelope. And it typically is involved in transactions where their self -- they are dealing with their controlled foreign corporation, and there are transactions that are going between the two of them, and they are able to price them in a manner which they use the arm's length standard.

There is a lot of subjectivity to it. But we find that there are some that do push the envelope and have in the past, and the Tax Cuts and Jobs Act of 2017 attempted to [inaudible] to park profits in little or no-tax jurisdictions, and we saw quite a bit of that.

And so there is a lot of activity to plan into, transactions that do minimize the global effective tax rate of these large entities.

What I would add very quickly is that it is not unusual either for some of the global high wealth individuals who themselves look like a multinational holding company to operate in a manner that is not dissimilar, so it looks like a multinational.

The challenge is they do not file a consolidated tax return, and it is much more difficult to identify their activities than it is on a large multinational.

Mr. Doggett. Thank you.

On both, how would the President's plan help you do a better job, a more thorough job of enforcing our laws?

Mr. Thompson. The gentleman's time has expired. Thank you.

Mr. Rice, you are recognized for 5 minutes.

Mr. Rice. My career before I was in Congress, I was a tax lawyer and a CPA. And I remember the mid-1990s when the IRS had grown to abuse the collection systems to the point that taxpayers and their representatives were outraged. And there were hearings in Congress and aggrieved taxpayers were brought in, largely because the IRS was disclosing personal information of taxpayers.

And the result of those hearings was the Taxpayer Bill of Rights, and that was under the Clinton administration. The pendulum had swung hard toward protecting taxpayers, and now it appears that the Biden administration wants to swing the pendulum far back in the other direction.

So where I do certainly believe that everybody should pay what they legally owe, I am extremely concerned about the privacy aspects here, that the administration is looking to expand the IRS and their reach into people's personal information, particularly with respect to the vast growth in the IRS' reach into people's bank accounts, and to information reporting on the specifics of their bank accounts, and in light of these disclosures that have happened in this week, where thousands of individuals, somebody at the IRS has apparently leaked to publications.

Mr. Mazur, let me ask you, given the steady stream of leak of personal information from the IRS, do you think that that will help voluntary compliance or hurt voluntary compliance?

Mr. Mazur. Thank you for the question, Mr. Rice.

So I think the administration's proposal to increase the information reporting by financial institutions would help voluntary compliance. And it would do so --

Mr. Rice. Well, let me ask you this. Given that the IRS can't keep information private, they leak it, and we are going to give the IRS more information about taxpayers, Mr. Mazur, do you think

that these leaks that the IRS seems to have on a fairly consistent basis will help or hurt voluntary compliance?

Mr. Mazur. First of all, I think we need to get to the bottom of the disclosure of the tax information that was in the ProPublica article. And as the Deputy Commissioner pointed out, there is a series of investigations going on. And at this point we are probably not in a place where we can presuppose where it came from or where the information came from.

That said, obviously the importance of keeping information private is paramount, and taxpayers have a right to believe that their information will be kept private.

Mr. Rice. Given that we have been wholly unsuccessful in doing so, do you think the IRS should be given even more information that they can illegally disclose?

Mr. Mazur. So I think the disclosure of information, whether it occurs from the IRS or some other source, is problematic. What we are talking about here is some information reporting from financial institutions of information they already have on their customers to the IRS. That would do two things, it would help the IRS --

Mr. Rice. Mr. Mazur, I am running out of time. I have one more question I want specifically to get to.

Mr. Mazur. Sure.

Mr. Rice. It is this question of shifting the IRS' fund from discretionary, over which Congress has oversight, to mandatory, over which Congress does not.

Given the enormous power of the IRS and their propensity to abuse that power, please justify for me why Congress should give up their oversight authority over the IRS' funding. It seems to me that is just patently, egregiously bad.

Mr. Mazur. So, Mr. Rice, I think the importance of multiyear funding is the key issue here. And it is not necessarily the case that there is ceding oversight. Congress would have the ability to continue to have oversight.

Frankly, the Ways and Means Subcommittee on Oversight would be expected to continue its efforts to oversee the IRS' operations, regardless of the source of funding. And you would expect the IRS to have routine reports on how they are doing on this as a way to help improve oversight as well.

Mr. Thompson. Thank you. The gentleman's time has expired.

Mr. Suozzi, you are recognized to inquire.

Mr. Suozzi. Thanks so much, Mr. Chairman.

This is such an important topic. Hopefully we can find bipartisan agreement. This is just an issue of fairness and justice and a great way to bring in revenues into our Nation for people that owe their taxes.

Mr. Mazur, thank you so much for your service and thanks for being here today.

Mr. Mazur, the IRS Commissioner who currently serves was appointed by President Trump, wasn't he?

Mr. Mazur. That is correct. It is a 5-year term for IRS Commissioner.

Mr. Suozzi. And IRS Commissioner Rettig has said in testimony and statements before that he believes that the tax gap is as high as a trillion dollars.

Mr. Mazur. He has said that.

Mr. Suozzi. You testified earlier that you think the analysis you have is as high as \$600 billion, but he thinks it is as high as a trillion dollars. And he believes, I believe in testimony he has given in hearings before us, that for every dollar we invest, we can get at least \$5 back in additional revenues. Is that correct?

Mr. Mazur. So on the return on invest the IRS historically has a return on investment 4 to 5 to 1 for every dollar reported.

Mr. Suozzi. Yes. And so Commissioner Retting, who was appointed by President Trump, believes it is at least five times for every dollar. Isn't that correct?

Mr. Mazur. He has said that, yes.

Mr. Suozzi. Mr. O'Donnell, you are a career IRS official. You have been there for 34 years. Is that correct?

Mr. O'Donnell. Yes, Congressman Suozzi, it is correct.

Mr. Suozzi. So did you know that in 1988, when you first joined the IRS, there were almost 17,000 revenue agents and today there are only 8,000 revenue agents?

Mr. O'Donnell. Yes, sir. I know that our staffing is way down and it makes it very difficult for us to operate effectively in this environment.

Mr. Suozzi. And when you started in 1988 there were 8,400 revenue officers and today there are only 3,200 revenue officers.

Mr. O'Donnell. Yes, sir.

Mr. Suozzi. So we have had a dramatic decrease in enforcement ability at the IRS, certainly during your career. And we have got a lot of statistics on the past 10 years. For example, corporations audits have gone down from 18 percent to 12 percent, high income earners who make over a million dollars a year have gone down from 12 percent to 3.5 percent. In fact, that is only through 2018. They say it has gone down as low as 2.5 percent.

And as a result, of corporations worth a billion dollars or more, audits are down 51 percent and million dollars per year income earners are down 61 percent.

So I see that in the President's budget -- which I totally support, this is a great way for us to bring in revenue so we can Build Back Better and make our country stronger just by getting people to pay their fair share of taxes -- I see that there is a \$1.2 billion increase in discretionary spending and \$417 million in program integrity for \$1.6 billion. But then there is another big chunk of money to be spent over 10 years.

Do you believe that we can bring back 5 dollars for every dollar of enforcement that we spend?

Mr. O'Donnell. Congressman, I believe that if we rebuild the IRS with the necessary enforcement resources and the information reporting that is being discussed, that the return on invest that has been discussed by Assistant Secretary Mazur and the Commissioner is definitely within the range of possible.

Mr. Suozzi. So you as a career professional really believe that we need to make this investment so we can do our job to try and recapture the money we are owed. You agree with that, don't you?

Mr. O'Donnell. Yes, sir. We are way down on audit coverage on all the major contributors to the tax gap.

Mr. Suozzi. Now, I am concerned about the fact that Mr. Mazur testified that he thinks there is going to be -- there is a \$7 trillion dollar tax gap over the next 10 years and that we are only estimating, because we are using these conservative numbers, we are only going to bring in \$700 billion, only 10 percent of that \$7 trillion in tax gap, only 10 percent. It is really a very conservative, very modest number.

And I want to know, if we give you more money than is being proposed by the President, do you think you could bring in even more money in tax revenues?

Mr. O'Donnell. Those estimates are prepared by the Department's Office of Tax Analysis. I think Mr. Mazur is better positioned to respond.

Mr. Suozzi. So, Mr. Mazur, do think we could bring in even more than \$700 billion if we gave you more money?

Mr. Mazur. So I think if we look at the proposal, it is a rightsize proposal and it really is intended to allow the IRS to absorb these resources in a reasonable way over the coming decade.

One thing to keep in mind is the amount of revenue that is expected to be raised in the second decade after the end of the budget window is sort of twice the revenue in the budget window. So these kinds of estimates grow a lot over time and really have big long-term implications.

Mr. Suozzi. Well, I am very excited for you to get this money so that you can start hiring people, so the Commissioner can bulk up on our revenue agents, our revenue offices, which have been decimated over the past 10 years and over the past 34 years that Mr. O'Donnell has been there. And we are going to support everything we can to try and help you to achieve your mission.

So thank you so much for your service.

Mr. Thompson. Thank you. The gentleman's time has expired.

Mrs. Walorski, you are recognized to inquire.

Mrs. Walorski. Thank you, Mr. Chairman.

Mr. O'Donnell, I am concerned about inconsistent and conflicting audit outcomes that some architectural and engineering firms face in relation to their R&D tax credit activity.

Given the Biden administration's proposal to give the IRS a lot more money to conduct audits, we need to know that the audits, like the ones facing these small businesses claiming the R&D credit, are fair.

General language used in some IRS denials indicates companies that provide quote, unquote, "services" don't qualify for the business component of the R&D credit's four-part test, which seems incorrect based on historical application of the credit.

Furthermore, there are examples where the IRS Large Business & International Division approved the credit as part of an audit while similar claims under audit in the Small Business/Self-Employed Division are being denied.

So, Mr. O'Donnell, are you familiar with this issue with the R&D credit's longstanding applicability to the research activities of architecture and engineering firms?

And I also understand recommendations have been submitted to the IRS to clarify the guidance on this issue.

Can you commit to working with the committee and the Small Business/Self-Employed Division to provide clear guidance and ensure that IRS audits are fair and that the resources are being allocated wisely?

Mr. O'Donnell. Congresswoman Walorski, thank you first for the question.

I will answer your question up front to say that we are committed to working with the Small Business/Self-Employed Division. They actually report to me in my new role. I have quite a bit of experience with the research and experimentation credit in my former role in Large Business & International.

It is a factually intensive issue. There is a lot of subjectivity in what taxpayers are doing. We have made great strides in the recent past to centralize efforts to better understand what type of compliance risk is presented by certain types of businesses and activities.

And we have concentrated our expertise, both within Small Business and in Large Business, to improve our availability of resources to support those audits, to actually be engaged in the audit to the extent necessary, and to ensure that the work that we are doing comports with the expectations of our experts, and that to the extent that we do not need to further examine, we drop the issue, but where we do need to pursue it further, we will.

The most important point that I want to make is that at the outset we have gotten better at identifying the types of activities that give rise to noncompliance and improving our selection

methods around that so that we are not burdening taxpayers who are compliant and we are spending the time where the noncompliance is.

Mrs. Walorski. I appreciate that.

Mr. O'Donnell, the IRS IT ecosystem is complex, with many systems requiring a high level of interoperability and scalability. Security and resiliency are of paramount importance, especially in the age of cyber attacks.

Many of the challenges we face can be addressed through the use of next-generation IT solutions, such as cloud computing. By utilizing the cloud, we will maximize the agency's IT interoperability, security, and resiliency.

What is the IRS doing to leverage the cloud and other emerging technologies to modernize its IT infrastructure?

Mr. O'Donnell. I cannot answer the question specifically on the cloud, but I know that we have been working very hard to improve our cybersecurity and to update our platforms. As was said at the outset, our infrastructure is quite old. It does need updating.

And what I would be willing to do, very happy to do actually, is to have staff from our IT division work with your staff to explain what it is that we are doing to improve and how much progress we are making towards the cloud to support both the services that we provide to taxpayers, but to improve our ability to identify noncompliant taxpayers, to identify or to ingest information, to analyze it, and to make the best decisions on how to run our business here.

Mrs. Walorski. That would be great.

And one more question.

The IRS has not developed a specific or long-term plan to address updating, replating, or retiring most of its legacy systems.

As stated in the August 20 Treasury Inspector General for Tax Administration report, the IRS identified 45 systems for modernization or as candidates for modernization and 34 systems for retirement. Further, the IRS does not have an enterprise-wide definition or a complete and accurate inventory of legacy systems.

How does the IRS balance the recapitulation of legacy platforms with the requirement to migrate to the cloud in the necessity of cybersecurity protection?

Mr. O'Donnell. Again, Congresswoman, I would be very happy to have the staff from IT come up and work with you to brief you on exactly what their plans are. I will say that multiyear funding on a timely basis can help us achieve the objectives that you are describing.

Mrs. Walorski. Thank, you, sir.

I yield back, Mr. Chairman.

Mr. Thompson. Thank you.

Ms. Chu, you are recognized to inquire.

Ms. Chu. Deputy Assistant Secretary Mazur, when we spoke earlier this year I voiced my concerns about the tax gap and about the need for action. Chairman Pascarell, Congress Member DelBene, and I have been working together to ensure that our colleagues on the Appropriations Committee know of the broad congressional support for increasing the IRS' discretionary funding for normal operations. But that mandatory funding is really critical.

I fully support President Biden's proposal for multiyear mandatory funding to restore the IRS' capacity and operations to where it should be, ensuring that all taxpayers are paying their fair share.

However, as your testimony notes, the IRS has serious systems upgrade needs that have fixed costs and staffing needs that have been deferred for years.

Commissioner Rettig has also talked about the significant amount of funding that goes to patching outdated technology each and every year.

So would you provide us with your overview on how the administration envisions mandatory funds to be allocated across IRS functions, particularly in the first few years? And how would upgrading the IRS' systems and staffing levels help contribute to efforts to close the tax gap?

Mr. Mazur. Thank you very much for the question, Congresswoman Chu. And thanks for your support of addressing the tax gap. It is incredibly important to do.

When we look at the long-term challenges that the IRS faces, they are both human capital and fiscal capital.

On the human capital side, it is important to be able to attract, train, and retain talented enforcement personnel, whether they are revenue agents, revenue officers, criminal investigation officers, or whatever.

And so a big part of the mandatory funding -- I kind of prefer to look at it as multiyear funding -- is dedicated to do that, to build up the systems that allow you to bring on board thousands of new hires over a number of years and get them to perform at a very high level.

In addition, you want to pair up those talented people that you hire with the best information technology that you can. Part of it will involve upgrading the current systems that are outdated or antiquated. Part of it will involve learning about new technologies and new techniques that can take information and put it into more usable forms for that personnel.

So we are looking at relatively -- the majority of the funding in the multiyear portion is for personnel. But we are looking at several billions of dollars for IT investments and to accommodate the extra information reporting that is requested also by the administration.

Ms. Chu. Thank you.

Deputy Commissioner O'Donnell, last year, during the committee's budget hearing with former Secretary Mnuchin, I asked him about Treasury's funding request for expanding callback functions at the IRS in the coming years.

Allowing the IRS to call taxpayers back instead of staying on hold for an extended period of time would be a commonsense improvement that most taxpayers would applaud. And I believe it has great potential to also improving services for taxpayers with limited English proficiency.

Yet, in 2019, the IRS was only able to answer 29 percent of the 100 million calls it received, which indicates that the IRS also has staff capacity problems with its call features.

So would you please tell us how the IRS plans to use both annual discretionary funding and multiyear mandatory funding to increase staff capacity and improve technology systems at the IRS for better taxpayer service and specifically with regard to the callback functions?

And are there any plans on how to use these systems to improve services for limited English proficient taxpayers?

Mr. O'Donnell. Thank you for your question, Congresswoman Chu.

First off, we have been increasing the use of the callback feature, and there has been a significant effort underway to contract out services to help us provide services to taxpayers where there is limited English proficiency.

There is a lot of interest within the agency to make sure that the many new residents in the United States of America, whether they are citizens or working to become citizens, they want to pay the appropriate amount of tax. They want to be part of the system. And we are working to do what we can to help them achieve that.

Multiyear funding to improve our systems and to allow us to have sufficient personnel in the agency to assist taxpayers will go a long way towards improving access to service.

But access to services is primarily an annual budgeting event where we are authorized a specific level of service. In the fiscal year 2022 budget, we requested a 75 percent level of service in a normal environment. This year has been anything but normal and our level of service is exceptionally low.

Mr. Thompson. The gentlewoman's time has expired.

If you have more information, you can get that to us and we will make sure everybody gets a copy of it.

Mr. O'Donnell. Yes, sir.

Mr. Schweikert, you are recognized to inquire.

Mr. Schweikert. Thank you, Mr. Chairman.

Mr. O'Donnell just made a point. This last year the number of complaints we have had in customer service, we understand it was a very difficult year. But there are a couple of points.

And, Mr. Chairman, and to everyone that is actually really interested in this, if you actually look through your briefing materials for this hearing, I think I found five, maybe six different estimates of the tax gap.

I would love to have a couple of the members who work with the IRS send us your actual formula, maybe even Democratic staff. This is not an "I got you," it is truly to understand what the curve looks like, because, as you would guess, the first dollar collected is a lot easier than the last dollar.

Second, a few years ago, sitting on Ways and Means Oversight, the previous IRS Commissioner, we had hearing after hearing and discussion after discussion with staff in regards to the IT resources, getting the IRS off of its own servers, moving to an encrypted cloud, actually modernizing it, stories that in the server farm in West Virginia the floor is sinking.

It is time to do a fairly radical approach of build a mirrored system and then one day turn it on, but get the IRS off of managing its own servers and, I would argue, building encrypted data services and get them out to the private sector.

Third thing, Mr. O'Donnell, there has been -- and some really smart people have written about this -- instead of using the data and algorithms that are housed within the IRS, purchasing commercially available data to actually find when there is discontinuity in what is reported and what is also on public records as a way to decide audit functions, particularly for high net worth individuals, and that the cost of that would be dramatically less expensive over hiring tens of thousands of people and their pension and their salary cost and would actually produce greater revenues with much more accuracy.

Have you ever had conversations of the elegance and the value of using the stunning amount of outside data that is available that could trigger your audit flags?

Mr. O'Donnell. Congressman Schweikert, first off, thank you for your points and your question.

The notion of selecting taxpayers for examination or for whatever appropriate enforcement action is one that it is an ongoing exercise within the agency. We are constantly looking to improve our capability. We have limited resources. We do not want to spend more time than we need to with people who have complied. It is a waste of our time and it is a waste of their time.

Mr. Schweikert. Deputy Commissioner, it is the tyranny of the clock, so I am sorry for -- and having a lot of caffeine.

My argument is moving away from the constant internal battle of: Is your technology good enough? Is your design of -- we will call it your algorithm -- but your triggers and starting to actually use almost a crowdsourced data collection model and in some ways removing the human fragility that makes many of us very uncomfortable, of possible individual targeting, that it becomes actually lots of data you can't afford to collect, but you can afford to subscribe to?

Mr. O'Donnell. Sir, I would be happy to work with anyone who had clever ideas, clever approaches, new ways to think about identifying noncompliance. We would love to speak with them to understand what it is that they could do.

And I personally have led an effort within the agency to try to improve our capability. Again, it is with our resources, with our people.

But we are not averse. I actually look to take ideas from other countries, other commercial enterprises, anyone that has a better approach to identifying the question, answering the question we are asking, would definitely be supportive of moving in that direction and would welcome your support to do that and any ideas that you have in terms of how to go about achieving that.

Mr. Schweikert. Thank you, Deputy Commissioner.

Mr. Chairman, this becomes the moment of question. Is the Democrats' goal to dramatically plus up the size of the bureaucracy or is it to substantially collect dollars that are actually owed?

If it is dollars that are owed, I believe many of us on the Republican side have creative, data-centric paths to get you there without inflating the size of bureaucracy. And I would make you the argument that formula for dollar spent to dollar collected would be much more robust on a data-centric approach than a bureaucratic approach.

And with that, I yield back.

Mr. Thompson. I thank the gentleman.

Ms. Sanchez, you are recognized to inquire.

Ms. Sanchez. Thank you, Chairmen Thompson and Pascrell, for holding this important hearing.

As we debate major investments that we need to make in our infrastructure, we always seem to arrive at a familiar place. I think almost all of us can agree that we need to rebuild our transportation and energy systems that our communities are going to be depending on over the next century. And probably most of us can even agree that we need to do more for communities of color and rural areas that always seem to be left behind.

But when it comes time to talk about how do we pay for it, we suddenly get mired in an academic debate about revenues. Most of us are not accountants or tax lawyers, so eyes glaze over when we talk about the tax gap. And it is way too easy to just demonize the IRS and blame them for everything.

So we just end up right back to square one. We never get to the plain and simple issue of fairness that is squarely in front of us.

Then somehow we convince ourselves into thinking that we can't afford big investments in this country anymore. Well, I maintain that we can't afford to keep repeating this pattern, because the communities that I represent can't afford it.

The communities that I represent with, I would say, medium household income of under \$80,000, those communities, they do pay their fair share of taxes, and they have just an underreporting rate of just under 3 percent.

Meanwhile, a recent study suggested that the top 1 percent avoid paying taxes on 20 percent of their income.

So I think it is smart for the administration to lay out the solutions to these issues of fairness that plague our system.

Thankfully, fairness is pretty simple, about as simple as the problem that we are facing in terms of the tax gap.

First of all, we can invest in a computer system for the IRS that is newer than the 1960s tax processing system that it currently uses.

We can also allow the IRS to hire auditors who have the expertise to crack down on sophisticated tax cheating schemes.

And when all of our offices hear from constituents who face long wait times on the phone and can't get a live person at the IRS, we also might try investing in increased staffing.

Those are just three really simple things that we can do to help close this problem.

But I want to drill down a little bit more on the inequities in our enforcement, because that is really where the tax gap issue lies.

So, Ms. Holtzblatt, as you noted in your testimony, it is far easier to conduct an audit for the average tax filer in my district than it is for the wealthiest 1 percent.

Can you please expand on the consequences of not having thorough audits at the top income thresholds?

Ms. Holtzblatt. I am sorry, I wasn't prepared. Do you want me to answer at this point or wait until the second panel?

Ms. Sanchez. My apologies. You are on our second panel. I am sorry to catch you off guard. If you wouldn't mind responding to that, that would be helpful.

Ms. Holtzblatt. I think it is very important to be able to do equitable audits at all levels of income. It is much more complicated to do audits at the high end because of the complexity of the Tax Code there.

What concerns me at the lower end is the high number of correspondence audits that end up with individuals not responding to the IRS. And that is something we have to delve more into as to why individuals at the lower end are not responding when they get requests for documentation, whether that is because they are not compliant or whether it is because they are scared of the IRS, they cannot get the documentation, or they don't speak English.

These are things that we have to probe on both sides of the income contribution.

Ms. Sanchez. Thank you.

And, Deputy Commissioner O'Donnell, can you elaborate on the different skill sets that are needed to audit the tax returns of small businesses compared with multinational corporations?

Mr. O'Donnell. Yes, Congresswoman.

What we need at the more sophisticated level, the large corporate, the high wealth individuals, are individuals who have experience, deep experience in narrow areas of the tax law where there is substantial planning going on, the law is complicated, and it requires those who have a lot of experience having worked through and helped either examine those types of transactions or plan them. Those are the types of sophisticated examiners that we require.

Much less expertise is required to deal with a taxpayer who has one issue where all the information is on the tax return, which we would typically find with an individual with wages or deductions.

So we do need more sophisticated on the high end.

Ms. Sanchez. Thank you. I yield back.

Mr. Thompson. The gentlewoman's time has expired.

I want to remind all members to direct your questions to those on the first panel. We will get to the second panel when we conclude our questioning.

Mr. Wenstrup, you are recognized to inquire.

Mr. Wenstrup. Thank you, Mr. Chairman.

And thanks for everyone's being part of this discussion today.

I am one that would like to see all of our agencies be a little bit more parental and cooperative and caring to the American people than punitive, but punitive when it is appropriate, and hopefully we can head in that direction at some point.

I am not going to continue the discussion about ProPublica. That is obviously a problem, and I do want to address it, and I will get into that.

Mr. Suozzi brought something up today that I thought was an important question on how to ask it. You are talking about increasing the number of employees with the IRS and will that increase the net revenue, not just revenue but net revenue. Obviously that is important and I think that is what he was driving at.

And at the same time, when we talk about increasing taxes, we have to make sure that that doesn't decrease employment and decrease our net revenue. So that is something we have to consider as we move forward with what we are doing with taxes.

But going back to ProPublica, leaks like these, especially without accountability, they shake our constituents' confidence in the IRS. Their confidence in our tax system in general is gone. And our ability to secure the private information that they give us year after year is obviously on the line.

And I want our citizens to be able to trust our agencies, be able to trust our IRS, but seemingly we are a long way from that.

And all this is coming at a time when the administration is seeking nearly \$80 billion in taxpayer dollars, with more than \$70 billion of that which would go to mandatory spending to grow the IRS, at the same time seeking access to even more private data. It is a tough sell, I have got to tell you right now.

But let me shift gears just a little bit. This tax compliance proposal imposes complex and some costly reporting and data collection requirements on our financial institutions, and I am also concerned that this may make many banks facing IRS enforcement, it puts their reputations and their relationships with their customers at risk.

And I want to ask this question, probably two questions really here I want to ask, and I will ask them both to Mr. Mazur, if I can.

What outreach is the IRS doing to ensure smaller community and independent banks are not smothered with compliance burdens and perhaps, and most importantly, cost? And what is the plan for securing this entirely new data set?

My second question is, can you guarantee no one making under \$400,000 will be impacted negatively by this tax proposal?

I will give both questions to you. Thank you.

Mr. Mazur. Okay. Thank you, Mr. Wenstrup.

It is important first to realize on the data that is being requested, this is information that financial institutions already have about their customers. If you look at your personal bank account, you will see that there is monthly a tallying up of inflows and outflows from your accounts.

And so really what we are asking for in the request, this proposal, is that information tallied up for each account on an annual basis.

And for the smaller and community banks, there could be some cost. This is something where we would be as an administration very willing to work with affected institutions to figure out what is the best way to go about doing this. At most it should be a one-time cost because it is a routine set of information that is collected, but you wouldn't want it to be overly burdensome.

The second question you asked, about taxpayers with income under \$400,000 and change in their taxes, the compliance proposal looks at increasing the amount of resources to the IRS to ensure that people pay the taxes that are owed under the laws that Congress has already passed. The administration would like to see audit rates go back to where they were in recent years so to reverse some of the decline.

Mr. Wenstrup. If I can, my other question was, can you guarantee no one making under \$400,000 will be negatively impacted by the tax proposal?

Mr. Mazur. By the compliance proposal?

Mr. Wenstrup. By the tax proposal in general.

Mr. Mazur. So the tax proposal in general we worked very hard to ensure that taxpayers with income under \$400,000 would not face a higher tax rate, would not face increased tax rates on their capital gains income, and all of those things. So that is detailed very much in the Treasury Green Book, which outlined a lot of the proposals.

Mr. Thompson. The gentleman's time has expired.

Consistent with committee practice, we will now move to a two to one questioning ratio.

And I will recognize Mr. Schneider for 5 minutes to inquire.

Mr. Schneider. Thank you, Mr. Chairman.

And I want to thank Chairman Thompson and Chairman Pascrell for hosting this important meeting and our witnesses for joining us here today in this first panel.

As we have long known, the IRS has been resourced-starved for years. Just in my State, in Illinois alone, since 2010 we have seen 73 percent of the IRS workforce eliminated. The number of personnel went from more than 2,200 to just over 600 in a single decade. Overall we have lost well over 40,000 IRS employees in the past three decades. And the agency's underlying digital infrastructure relies on a programming language that hasn't been taught in years.

All these data points illuminate the most frustrating aspect of the tax gap. Its cause and its solution are both as clear as day. When the IRS lacks the resources it needs to do its job, more people get away with skirting the rules on taxes that they owe.

Experts like those on our panel here agree that increased funding for enforcement pays for itself through the increased revenue -- money that people already owe to the U.S. Government -- and will make a difference as we go forward.

Mr. Mazur, if I can turn to you. Earlier it was suggested or was questioned whether the ROI for investing, for the administration's plan for investing in compliance, would be five times for two times, 2.5 of that.

My first question is a basic one. Is a 250 percent ROI typically thought of as a reasonable if not an outstanding investment?

Mr. Mazur. So, yeah, if you have got a 2.5 to 1 return on your investment, that would be a great investment. But what the IRS has found is historically the return on investment in enforcement resources is 4 to 5 to 1, so much larger than 2.5.

Mr. Schneider. Right. So to follow this logic, if only at a 2.5 times return it would be worthwhile expanding enforcement to achieve greater fairness, improved efficiencies, and better service level for all taxpayers. And perhaps stating the obvious, if we didn't get 2.5 times, but we did get that 4 to 5 times, it would be a good thing for all Americans.

So, Mr. O'Donnell, Director O'Donnell, if I can turn to you. We talked about the outdated systems of the IRS. It has been noted that the IRS has fewer auditors today than at any time since World War II, that the audit rate for the most affluent, likely those with the most

complicated returns and known for errors, has dropped by more than two-thirds. In fact, in 2018 only 140 of 4.2 million partnership and 397 of 4.8 million escrow filed returns were audited.

In this case, is it fair to say that the returns today are more complicated than they were just after World War II?

Mr. O'Donnell. Congressman Schneider, thank you for the question.

I would say that not only are they more complicated, that they are more likely to operate globally, which adds complexity to the environment, and there are a lot more of them that are being filed, as you just pointed out.

So a significantly reduced workforce and significantly increased number of returns and complexity has put us at a real disadvantage in ensuring the American public that there is fairness in the system and that there is integrity in the system. And multiyear funding, timely multiyear funding could definitely help us turn the tide on that and begin to rebuild the agency.

Mr. Schneider. So, logically -- and I am sorry, I know these are obvious, but I think it is important to state the obvious here -- to handle these more complicated global returns, is it true that they require skills and expertise far greater than what was necessary 75 years ago?

Mr. O'Donnell. Yes, sir. And that is part of our hiring plan, is to be looking for those individuals. We are going to try to recruit in, if we get the budget support, those individuals who have much more experience on the outside or in other parts of the government that understand some of these transactions, midcareer professionals who are looking for a change to come in and initially help us be able to run faster sooner.

We will look to bringing in more recent college graduates once we get a bit more expertise. But our initial focus is going to be to bring in the sophisticated examiners that you described.

Mr. Schneider. So we have got more returns, they are more complex, they take longer to evaluate. We need more people and we need more assistance.

So my point being is that if we are going to create that IRS that is more fair, more efficient, and more service oriented, if we are going to do a better job ensuring that everyone in the country, irrespective of their income or where they live, pays the taxes that they owe, I guess I will ask both our witnesses now, don't we need to invest in more systems and better people? Let me rephrase that, more people and better systems.

Mr. O'Donnell. Yes, we do. And it will help improve service to taxpayers and fairness to the system, absolutely.

RPTR BRYANT
EDTR HOFSTAD

[2:00 p.m.]

Chairman Thompson. Thank you.

The gentleman's time has expired.

Ms. DelBene, you are recognized for 5 minutes to inquire.

Ms. DelBene. Thank you, Mr. Chairman, or to both of our chairmen, for holding this important hearing.

And thank you to both of our witnesses for your time and your work.

I am the former director of the Washington State Department of Revenue. So, as someone who has had to lead a revenue agency, I definitely understand firsthand the importance of having adequate and consistent, stable funding and updated technology to making sure that we have an efficient and effective revenue agency. So I have consistently advocated for increased funding for the IRS, with dedicated funding specifically for business modernization and the workforce to support that.

We are seeing an alarming increase in cyber attacks on both public and private entities. These attacks threaten the security of millions of Americans' personal financial information, and the IRS is not immune to such vulnerabilities.

Congress has been asking the IRS to do an increasing number of tasks lately, from standing up new programs to expanding existing ones, as well as to modernize. It is only appropriate for us to provide the appropriate resources to put the agency in the best position to succeed.

Mr. Mazur, can you speak to what is needed to sufficiently modernize and secure the IRS's business systems to combat the nearly 1.4 billion security threats that the IRS faces annually?

Mr. Mazur. So the administration's proposal includes both a discretionary component that funds ongoing work to deal with cyber attacks and security, but, also, the multiyear funding includes a substantial amount of resources for IT funding that would allow the IRS to upgrade its systems and also to kind of harden them and make them more resilient to potential attacks.

Ms. DelBene. And just a quick comment. You talked about this earlier, about systems that still require COBOL programming. This is actually a big workforce issue, because students coming out of school today aren't learning COBOL, and so you must have to back-train folks in order to have them be able to work on these systems.

Mr. Mazur. Yeah, that is my understanding. The IRS, when they hire people to work on these systems, needs to train them on what are essentially ancient languages.

Ms. DelBene. Then, also, if the core IRS systems were to fail, what would that mean for our government operations?

Mr. Mazur. I think I am going to pass that over to my colleague, but it would be catastrophic, that we would be unable to fund the government if these systems were to fail for some substantial period of time.

Mr. O'Donnell. Congresswoman, I would agree with Assistant Secretary Mazur that it would be catastrophic.

What I would say -- and I spoke with the leaders of our IT division before this hearing to get a sense of what they need and where they are.

There are significant funding shortfalls within the IT arena. And any support that we could get from the Congress, multiyear, timely, focused on improving our system, our infrastructure, modernizing it, would greatly improve our ability to provide service to the American public, to improve our ability to make enforcement decisions, and basically just to improve the integrity and fairness of our overall tax system.

It is something the United States deserves, and very much hope that we can have your support, going forward, for that.

Ms. DelBene. And just to follow up on that, clearly, we know systems going down could be catastrophic, in terms of the impact that it would have, but can you comment on the fact that we are asking the IRS to modernize as well as keep things running day to day? This isn't a place where you can focus on just modernization but you also have to continue to do daily work and build new systems. Can you comment on the impact that has from a workforce and budget standpoint?

Mr. O'Donnell. Yes. What it does -- I mean, it is typical of what we run into in the agency where we are having to make decisions on where our limited resources will go.

I mentioned earlier the challenge we had when we had FACA enacted and we started receiving additional information. We typically are able to only develop minimally viable products, but they don't get us to the point to be able to fully utilize information that is coming in or to fully, you know, support our entire organization.

So there are many challenges that we face every day trying to make these very difficult decisions.

Ms. DelBene. Thank you very much.

I yield back, Mr. Chairman.

Chairman Thompson. I thank the gentlelady.

Mr. Hern, you are recognized for 5 minutes to inquire.

Mr. Hern?

Mr. Smucker, are you there?

Mr. Smucker. Yes, I am here, Chairman.

Chairman Thompson. We will go to Mr. Smucker, then come back to Mr. Hern.

You are recognized to inquire.

Mr. Smucker. Thank you, Mr. Chairman.

This is a question for Mr. O'Donnell.

We have already talked about the ProPublica leak. I find it astonishing that they were able to post apparently thousands of tax returns. And I think it will have, as you have mentioned -- I know you share this -- a devastating impact on taxpayers' confidence that the IRS is capable of keeping that personal information confidential. So I think it is absolutely terrible.

I know you said that you, obviously -- you can't confirm there is an investigation, but I would assume there is an investigation underway. This is illegal, for anybody in the IRS to release information like this. I would just like to ask a few questions about that.

And I also just want to mention, you know, I think it looks political at this time when this information is being used even today to advance the Democrats' narrative that the wealthy individuals don't pay enough of their taxes. So it certainly looks like it is not only illegal but it is also political and timed to coincide with the political debate that we are having now.

So my question to you is, is this a felony, to release this kind of information? And if it were, after an investigation, determined that an IRS employee or group of employees released this information, what would the penalties be for that?

Mr. O'Donnell. Thank you, Congressman Smucker.

I would say that, first off, I want to be very clear that we don't know what happened. And I operate in an environment where I have to work through -- I am not criminal, I am civil, but we work through the information, and we try to understand what happened. And, in this instance, I would presume there will be criminal investigators that are involved as well as cyber experts that are able to go in and look at systems to understand what could have happened. I don't know.

But, you know, separate from this incident, if there were a willful disclosure of information, the individual or individuals would be subject to felony prosecution. And that could include --

Mr. Smucker. And do you know -- and I know that this is not particularly about this investigation. I fully understand that. And I know we both want to get to the bottom of it. But, you know, this is more about what the law is. I don't know.

So my question is, what would the penalty be for that? Is there an additional penalty if it is done for political purposes? And is there any penalty for ProPublica for releasing or for publishing the private information?

Those are three questions that I have.

Mr. O'Donnell. The first one on -- I will take the last one first. I do not know what the rules are with respect to ProPublica.

The code, as far as I am aware -- and I am fairly aware of the law in this space -- does not make a difference -- or does not differentiate the activity that motivated -- or the motivations of the individual that may have been involved in any disclosure, if that were to happen.

There is prison time and a fine. I do not know off the top of my head what those are, but it certainly does involve --

Mr. Smucker. Thank you.

And I want to just get to one other aspect. I don't see the clock here. I don't know if I am out of time. I guess not, Chairman. I don't hear the chairman.

Do you think -- you know, one other thing that we are hearing over the past few days is, this is being used to show that the wealthy pay some percentage of taxes. And I think it is -- that percentage, I believe, is inaccurate because it is based on unrealized gains.

Do you think -- am I correct on that, first?

Mr. O'Donnell. I am sorry, what --

Mr. Smucker. Do you believe that percentage that is being talked about is accurate?

Mr. O'Donnell. I do not -- I think it is best for me not to opine on anything regarding any taxpayer matter, report or otherwise.

Mr. Smucker. Do you think that wealth should be taxed before it is earned?

Mr. O'Donnell. That is a matter of tax policy, sir. I would prefer to avoid commenting on that.

Mr. Smucker. Well, you know, it would certainly be a massive change in tax policy that would have significant impact on our economy if we start to talk about taxing unrealized capital gains.

And so, you know, I think it is important, as we look at these rates and we hear the narrative that is being used as a result of this illegal disclosure, that we keep that fact in mind as well.

Thank you.

Mr. O'Donnell. Thank you.

Chairman Thompson. The gentleman's time has expired.

Ms. Plaskett, are you on the Zoom?

Ms. Plaskett. Yes.

Chairman Thompson. You are recognized to inquire for 5 minutes.

Ms. Plaskett. Yes. Thank you so much, Mr. Chairman, and thank you for convening this hearing this morning.

I had several questions regarding IRS funding and closing the tax gap.

One of the questions I have to Mr. Mazur is: At a recent Senate hearing, IRS Commissioner Rettig claimed that the Federal tax gap nowadays was close to \$1 trillion, or about \$560 billion more than the latest IRS estimate, which covered a period from 2011 to 2013. His statement has triggered a mini-debate over the actual size of the gap.

Do you think the Commissioner is correct in his estimate? And, if so, why do you think the gap grew by almost \$600 billion in 7 years?

Mr. Mazur. Thank you for the question about the tax gap.

One of my previous jobs when I worked at the IRS was actually overseeing the estimates of the tax gap that the IRS did. And the folks who worked on this in the Office of Research, Applied Analytics, and Statistics came up with an estimate for the 2011-to-2013 period of \$441 billion.

Obviously, that would grow over time. And, in my testimony, there is a statement that talks about, if it grew with the size of the economy, it would be around \$580 billion for 2019.

Commissioner Rettig has been saying that the estimates are on the low end because they don't take into account particular types of advances in the economy and in potential tax-avoidance behavior. The IRS is in the process of updating those estimates, and we will see where they come out on that.

No matter how you look at it, \$580 billion is a big number for a tax gap for 2019. And we project over the coming decade it would be \$7 trillion. And so it is large and it is growing, and it is something that needs to be addressed.

Ms. Plaskett. So you wouldn't say specifically that the estimate that was given by Commissioner Rettig was the correct amount, but you are saying that it is a large amount --

Mr. Mazur. Yes.

Ms. Plaskett. -- and it is growing at an accelerated rate.

There has been considerable discussion in the past year about the best way to close that tax gap. Do you have or promote specific policy measures that would have the biggest impact in shrinking that gap?

Mr. Mazur. So a couple things. And the administration's proposal is a sort of an all-of-the-above approach, right? So there is additional funding for enforcement personnel, additional funding for IT systems, and improved information reporting. And, taken together, we think that they would raise approximately \$700 billion over the coming decade.

But it really requires to do all of those components, so you can't just do one. They really are complementary. You want the additional enforcement agents to be well-trained, to have available the best tools to do their work, and so that means improved information reporting and improved IT systems. So you really need to do all of those.

Ms. Plaskett. Well, with that enhancement, particularly in the enforcement area, could it be used to fully fund high-level policy priorities, like the child tax credit system for our children or even infrastructure, which is so dear to members of this committee?

Mr. Mazur. Right. So if you look at the President's plans, the improved compliance revenues are used to support a number of the proposals. But they are in concert with improvements in the way we tax corporations and improvements in the way we tax individuals.

So, really, it is up to you all in Congress to do the mixing and matching together. But we think, if we look at the President's budget proposals, there is a coherent plan to do all of those things and all paid for.

Ms. Plaskett. Well, we rely on you experts to give us some guidance on which ones we should have as a priority.

Mr. O'Donnell, before my time expires, I wanted to ask you: We are talking about enforcement for taxpayer services. Discussions on reducing the tax gap have focused on enforcement. What is lost in the discussion has been the role of adequate taxpayer services in keeping the gap from rising.

How much emphasis do you think should be placed on upgrading the current taxpayer services as an element of a strategy to shrink the gap?

Mr. O'Donnell. Congresswoman Plaskett, thank you. I think a significant amount of emphasis needs to be placed on providing service to taxpayers.

Earlier, I received a question regarding earned income tax credit, and that is an area where I think a significant amount of outreach to help eligible taxpayers know they are eligible and claim the credit appropriately would go a long way in eliminating problems in that space.

Ms. Plaskett. Thank you so much.

And I yield back, Mr. Chair.

Chairman Thompson. Thank you.

Ms. Moore, you are recognized to inquire for 5 minutes.

Ms. Moore. Thank you, Mr. Chair.

And I want to thank both of our witnesses for their patience.

Let me just jump right in with you, Mr. Mazur. I was really sort of stunned a little bit, looking at all these numbers of the tax gap -- you know, a trillion dollars, \$700 billion I think you noted, \$600 billion -- that maybe only \$32 billion of this was associated with underreporting or nonfiling of corporations and that the rest really is attributed to maybe nonfilers or to individual income taxes.

And so I am going to ask you for a little bit of a profile of these tax dodgers. Would you say that maybe they are primarily people whose businesses are structured as passthroughs?

Mr. Mazur. Well, one of the things that we take from the data that the IRS has put together on the tax gap is that income that is reported by third parties tends to be reported to the IRS with a high degree of accuracy and income that is not reported by third parties tends to be reported with a much lower degree of accuracy.

So, really, what the administration's proposal tries to do is make the set of income where there is information reporting larger relative to the set where there is no information reporting. And that really would encourage taxpayers to voluntarily comply with the tax law, essentially own up to those sources of income, and not take steps to try and hide it from the tax authorities.

Ms. Moore. Do you think that it would be useful to have third parties like banks or merchants involved in helping, you know, disclose the noncompliance? Do you think that we ought to look at really, sort of, reevaluating who is able to structure as a passthrough?

Mr. Mazur. So I think the administration proposal really tries to enlist financial institutions in reporting on inflows and outflows to financial accounts as a way to give the IRS a bit of a lens into formerly hard-to-see sources of income, formerly opaque sources of income. And, really, that is a way to build on the current information reporting system, to improve that.

For a variety of business reasons, people may want to have passthrough structures in place, and it probably isn't the role of the Tax Code to try and impinge on those business decisions.

I think, as Deputy Commissioner O'Donnell talked about, though, that there are a number of situations where passthrough businesses may be tiered in a way to hinder the IRS from seeing where income-generating activity is taking place, and so, in those cases --

Ms. Moore. Yes.

Mr. Mazur. -- you want to be able to have a lens into that to be able to see what is going on.

Ms. Moore. Well, thank you for that.

And let me ask Mr. O'Donnell a question then.

Since 2010, large public companies have a tax filing requirement to report tax uncertainties -- that is, tax positions that affect their income tax liability. Now, this is supposed to give the IRS the focus on issues and taxpayers that pose the greatest risk of noncompliance.

How has this worked out? Do you think reporting of information related to uncertain tax positions has helped you improve return selection and examination results, address underreporting by these large corporations? And have you effectively incorporated this information into the examination process?

Mr. O'Donnell. Congresswoman Moore, thank you for the question.

What I would say is that the results from the uncertain tax position reporting have been underwhelming. They have not given us the insight into taxpayer noncompliance that we were hoping for.

There are many reasons for that. We have polled our workforce that examines the taxpayers in this space. It primarily gets down to a lack of clarity in terms of what exactly comprises the taxpayers' financial reporting that is made up of the uncertain tax position.

We have undertaken a look at the form in the instructions and are looking at ways to improve the reporting so that we can better utilize what is being submitted.

Ms. Moore. Thank you.

And thank you, Mr. Chairman, and I yield back.

Chairman Thompson. Thank you.

The gentlewoman's time has expired.

Mr. Hern, you are recognized to inquire for 5 minutes.

Mr. Hern. Thank you, Mr. Chairman, and to all of our panelists for being here today.

As you all know, today we are here to discuss the current tax gap and the difference between the taxes owed to the IRS and the taxes actually paid by hardworking --

[Audio malfunction.]

Chairman Thompson. Are you --

Mr. Hern. No, sir.

Chairman Thompson. You were cutting out a little bit. Go ahead.

Mr. Hern. Can you hear me okay?

Chairman Thompson. I can hear you fine.

Mr. Hern. Okay.

So, as I was saying, is that \$600 billion in 2019 is expected to reach \$7 trillion, as Mr. Mazur said a minute ago. Individual income taxes account for the largest portion of this gap, followed by employment taxes, corporate taxes, and estate taxes.

President Biden has proposed to close this gap by pouring \$80 billion into the IRS over the next decade to update technology, increase the IRS workforce by some 87,000 people, and conduct more routine audits on taxpayers to ensure taxes are being paid.

The administration touts that implementing these strategies will bring in some \$700 billion, which he wants to use to fund some of these unpopular agenda items that we are seeing being proposed right now -- the lifestyles of friends in New York and California that are driving, you know, \$80,000, \$100,000 Teslas through reimplementing SALT.

On this committee, I think we can all agree that one of the key roles of the IRS is to collect taxes that are rightfully owed to the government from individuals and businesses. Without collecting these revenues, we will fall farther into the massive deficits and debt that we are seeing currently.

It is our responsibility to ensure the IRS is capable of performing these constitutional requirements, and I fully agree with the Biden administration that closing the tax gap is a top priority to adequately fund our government. Where we disagree, though, is on how we would accomplish this task.

Efficiency in the Federal Government should be a priority, but President Biden reversed several executive orders that made it easier to hire and fire Federal employees. We cannot continue to waste taxpayer dollars on a Federal workforce that is incapable or unwilling to successfully perform their jobs.

Furthermore, increasing compliance and enforcement efforts should not impose overly burdensome requirements on taxpayers, especially with the knowledge that the Treasury has not sufficiently protected taxpayer data and other sensitive financial information in the past.

We saw this just last year when the Treasury experienced a major cyber attack on their email system and again just 2 days ago when ProPublica leaked the IRS tax data, data which is supposed to be confidential, on some of the country's wealthiest individuals.

President Biden's proposed increased reporting requirements come without any assurances that taxpayer data will be secure and protected. We shouldn't increase the amount of personal information taxpayers are forced to disclose without proper safeguards in place to protect it. This is a potential security hazard for millions of hardworking taxpayers, both on the individual and the business side.

Not only is this a security concern, but it also places overly burdensome reporting requirements on small businesses, who are still trying to recover from the harmful economic impacts of COVID-19.

As a former small-business owner for over 35 years and as the co-founder of a community bank, I understand firsthand the impact that overly burdensome reporting and compliance requirements impose on both financial institutions and small businesses.

President Biden's current proposal to increase reporting would require detailed information on all inflows and outflows from both personal and business bank accounts. President Biden makes the false assumption that financial institutions can easily provide this information when, in reality, this complex reporting regime will take years to implement and raise serious privacy issues and cost literally millions of dollars to comply.

As Members of Congress, it is our duty to ensure the government isn't imposing unnecessary regulatory burdens on our citizens. While I agree that we must take action to ensure taxpayers are paying their legal taxes due to the IRS, we must do this in a way that safely avoids placing overburdensome obligations on our taxpayers.

And, Mr. Chairman, I am going to yield back. My questions have been asked and answered by the panelists regarding how we are going to ensure this sensitive information is not compromised in the future. I really think the answer is, we don't truly know; we just know we are going to

have more information that can be disclosed. And so I think, for the American people, that is unsatisfactory.

I yield back.

Chairman Thompson. I thank the gentleman.

Mr. Evans, you are recognized for 5 minutes to inquire.

Mr. Evans. Thank you, Mr. Chairman.

The IRS workforce in Pennsylvania lost nearly a quarter of its employees over the past decade.

I would like to ask this question to Mr. O'Donnell.

Mr. O'Donnell, with respect to job losses among revenue agents and revenue officers who audit tax returns and perform collection activity, can you explain how job loss complicates the agency's effort to address the tax gap?

Mr. O'Donnell. Congressman Evans, thank you for the question. I certainly can describe some examples.

First off, as we lose employees, we lose the expertise that they have. An employee who has been here for 30, 35 years that leaves, they are some of our most competent, capable employees, and they are very difficult to replace. And, in fact, in an environment where we have attrition and we are unable to fill, they aren't replaced. So we end up losing expertise, and we don't replace it with someone who either has equal expertise or over time can be schooled up to that level.

What that has done over time is it has diminished our capability to respond to the evolving risks in our environment. There is greater complexity, there are many more returns being filed, and we have fewer people looking into or examining taxpayers or securing returns from individuals who have not filed. That is a role, an important role, that our revenue officers play. With the significant drop in those resources, we are unable to pursue, to the extent that we know we should or be able to, the nonfilers.

And, on the revenue agent side, you have heard the numbers; we can describe them again. But our coverage of the very large multinational entities, our coverage of the multitiered partnerships, our coverage of the global high wealth is greatly diminished.

Our people want to do a good job. Whether it is providing service, whether it is ensuring taxpayers pay the appropriate amount, or whether it is our internal folks supporting the rest of the agency, they want to do a good job. But it is very difficult in an environment where we are making decisions on what we can't do because of our limited resources.

Mr. Evans. Another question to you: Many of my constituents need help filing accurate and timely returns as they seek to claim the child tax credit and the earned income tax credit. And my field office, district office, has handled cases about tax preparers who have lacked a law or accounting license, returning serious errors.

Mr. O'Donnell, would you please explain how increased oversight of paid tax preparers, as the Biden-Harris administration has proposed, would ensure that low- and moderate-income taxpayers receive high-quality and professional services?

I heard you start to begin that conversation with Ms. Moore. Can you talk a little bit about that?

Mr. O'Donnell. Yes, sir.

First, if I may, I do want to say it is very important for us to be providing service to taxpayers to ensure they can comply.

But, with respect to return preparers, especially in the earned-income-tax-credit space, 51 percent of the returns that are filed by EITC claimants are filed by paid preparers, which may suggest that there is some complexity there. But the interesting observation that we have made is that those returns that are prepared by a paid preparer are more likely to have an error than an individual who prepares a return themselves.

So anything we can do to improve our ability to ensure that the paid preparers have the confidence and capability to prepare an accurate return and avoid any further interaction with the Internal Revenue Service is a major step forward.

There is another ask in the proposal, and it is to give us the ability to penalize those individuals who refuse to provide their information that they have been a paid preparer. We call them "ghost preparers." They are a significant problem, in that they prepare returns but they are not willing to sign it, and they take money from a taxpayer, a low-income taxpayer perhaps, and they are not filing an accurate return.

We really do need the capability to respond to that risk in the system.

Mr. Evans. I thank you, sir.

I yield back, Mr. Chairman.

Chairman Thompson. I thank the gentleman.

I recognize Mr. Beyer to inquire.

Mr. Beyer. Thank you, Mr. Chairman, very much, and thank you to our witnesses -- both chairmen.

I just want to point out, first of all, that the U.S. Treasury, in May, estimated that the tax gap is 3 percent of GDP. So, as we struggle to figure out how to get this economy moving faster, that is an important number to remember.

I would like to take issue with my friend Mr. Rice of South Carolina, whom I very much respect, about the concern for privacy. Yes, privacy is incredibly important; we need to do everything we can to preserve it. Those extra staff people, special cybersecurity experts will help it.

But where is the balance between the unintended illegal leak of data on a handful of very rich people, equally divided between Democrat and Republican, and the importance of keeping

people from cheating? Is our priority to protect these traitors to our country who refuse to pay their fair share of the price of freedom, who cheat all those honest taxpayers who are out there?

The Hamilton Project says that 70 percent of the tax gap is probably coming from the top 1 percent. And I don't think most Americans don't trust the IRS, maybe a very handful, a few. But when you figure that 99 percent of the wages are reported to the IRS, I don't know of anybody that is worried about it except somebody that may be worth a couple of billion dollars.

I just don't want this to be the red herring that keeps us from doing the right thing as we move forward.

So, Assistant Secretary Mazur, one of the important things that -- the administration has proposed financial reporting initiatives in the supplementary funding. Will this actually help reduce the number of audits of the tax-compliant individuals? Are we not moving in a place where if you respect the law you are less at risk than you were before?

Mr. Mazur. That is the intent of this. And the example I used before is that, if a taxpayer has on their financial reporting \$25,000 of inflows, \$25,000 of outflows from their accounts and their income reported is \$25,000, that is a return the IRS does not need to look at, and there is no reason to audit that taxpayer.

And so, really, it could reduce the amount of audits on otherwise compliant taxpayers by having this information available. Conversely, it would increase the scrutiny on taxpayers who are, kind of, grossly noncompliant, where there are large inflows and outflows into accounts and relatively small amounts of taxable income reported.

Mr. Beyer. One of the things our Joint Economic Committee came up with is that 99 percent of taxes and wages on salaries are reported but only 45 percent of the more opaque sources of income -- capital gains, rental income, passthroughs, and the like. Underreporting generally rises along with actual economic income because higher-income taxpayers have access to more sophisticated tax-evasion techniques.

How do you respond to the concerns brought up by some of my Republican friends about this additional reporting versus the privacy concern?

Mr. Mazur. So I guess I look at this additional reporting as very similar to the information reporting you already get from your bank about interest income. We don't think of that as an invasion of privacy, if your bank says you have \$25 of interest income and sends you a Form 1099 for that.

Really, it would be a similar kind of a thing, where your financial institution would, in addition to reporting whatever interest income you received, would report on your inflows and outflows to the accountants.

That would really not be an invasion of privacy for the individuals. It might even be helpful for individuals to know what the inflows and outflows to their accounts were over the course of the year.

Mr. Beyer. And, Mark, you have been doing this a long time. Do you have any sense that the average American taxpayer that is compliant, that works hard and pays their taxes on time, is somehow worried that ProPublica is going to come after them?

Mr. Mazur. I mean, I think the -- first of all, the release of data to ProPublica was illegal and wrong and obviously should be investigated, and there should be consequences for the people involved.

But for most Americans, they get paid wages and salaries, their information is reported routinely to the IRS on a W-2 form, and they are very compliant. As you noted, they are 99 percent compliant reporting that income.

Where there are less visible sources of income, taxpayers report smaller amounts. And, for the most opaque sources, maybe 50 percent is a good guess of what the actual reporting amount is.

Mr. Beyer. Thank you very much, Mr. Secretary.

Chairman Thompson. The gentleman's time has expired.

Mr. Davis, you are recognized for 5 minutes to inquire.

Mr. Davis. Thank you, Mr. Chairman. And thank you and Chairman Pascrell for a very informative -- very, very, very informative hearing.

And I also want to thank our witnesses for their experiences and insights.

Like other systems in our country, the seemingly race-neutral tax policies and audit practices have a substantial disproportionate impact on taxpayers of color.

I and my colleagues at the Congressional Black Caucus were deeply troubled by the prior administration's denial of legal stimulus checks to incarcerated individuals, especially given the disproportionate harm to African Americans and their families.

Similarly, I am deeply troubled that the prior administration failed to pursue 300 high-income taxpayers who cost the agency about \$10 billion in unpaid taxes over 3 years but disproportionately audited the working poor receiving the earned income tax credit who lived in counties that are largely Black, LatinX, and Native American.

And we have heard some response in terms of the "why" of some of the audited, but, Mr. Mazur and Mr. O'Donnell, what steps has this administration taken to examine its practices to ensure that it is not and will not unintentionally disadvantage taxpayers of color?

Mr. Mazur. Mr. Davis, thanks for the question. And, obviously, the Biden administration shares your view that the Tax Code should be enforced in a race-neutral way.

Obviously, there are parts of the Tax Code that have been enacted by Congress that have disproportionate effects on different segments of the population. Some of those can mitigate existing racial differences; some of them can exacerbate them.

One of the things that the administration has done is set up an Equitable Data Working Group, run out of the White House, which is charged with trying to develop data sets to understand these questions and really know, are we doing things that enhance racial equity with our policy choices or not?

And, until we have that data, it is -- we have many anecdotes I guess we can talk about, but having that data would really allow for a high level of sophisticated discussion of what the impacts are and allow them to be taken into account in developing policies going forward.

Mr. Davis. Let me thank you for that.

And let me just ask Mr. O'Donnell if he has anything to add.

Mr. O'Donnell. Yes, Congressman Davis, just a couple of quick points.

On the matter of prisoners receiving the economic impact payments, did understand that that was an issue. There was a court case that decided in favor of prisoners receiving the payments, and, from that point forward into the second and third round of the economic impact payments, we did ensure that that population was appropriately paid.

So we have corrected that and look forward to continuing to do that into the future. To the extent it is explicit in the law, we will comply with the intent of Congress.

Mr. Davis. Thank you both.

And, again, Mr. Chairman and Mr. Chairman, thank you for a very informative hearing, and I yield back.

Chairman Thompson. Thank you, Mr. Davis.

I recognize Mr. Horsford for 5 minutes to inquire.

Mr. Horsford. Thank you, Chairman Thompson, very much for holding this very important hearing on improving the fairness in our tax administration at the Internal Revenue Service.

Too many of my constituents feel that the cards are already stacked against them. Hardworking people here in Nevada's Fourth Congressional District go to work each and every day to provide for their families and to make their communities a better place to live. They pay their fair share of taxes and are simply trying to live the American Dream.

At the same time, there are millionaires and billionaires and major corporations who reap profits from their labor. It should only seem that they expect these millionaires and billionaires and big corporations to pay their taxes just like any other American and contribute to our country.

However, study after study has shown that this simply isn't true. The tax gap is a persistent and growing problem, with the wealthiest American households evading taxes or hiding their money in secret offshore bank accounts in order to avoid paying their tax obligations.

In fact, Americans with the highest incomes account for a disproportionately larger share of underreported taxes, while, at the same time, lower-income communities, especially Black and Brown communities, are targeted more by the IRS. This is not fair, and it must end.

Two days ago, ProPublica released a story about how the 25 richest people in America paid little to no Federal income taxes for years. Not one of these 25 richest Americans live in my congressional district. Instead, it is comprised of middle-class Americans who pay their taxes fairly.

I am proud of the hard work my constituents do each and every day, and it is simply unjust and unfair that the odds are stacked against them, which is why we must make reforms to the Internal Revenue Service to ensure proper tax compliance in a fair and equitable manner.

Mr. Mazur and Mr. O'Donnell, I wanted to ask, what steps can be taken to assist low-income individuals increase their participation in e-filing, which proves to be a more effective and efficient form of filing taxes?

And, when looking overall at the outdated tax-collection system, is the IRS factoring in the unique needs of low-income and Black and Brown communities in their outreach and support?

Mr. Mazur. Mr. Horsford, thanks for the question.

And, obviously, the goal of the tax administration system is to have everyone file a completely accurate return. Either they pay the tax they owe or they get the tax benefits that they are entitled to.

And the IRS has a free file system, a system with the Free File Alliance, to allow lower-income individuals or moderate-income individuals to be able to file their returns electronically for free using software developed by the leading software developers.

And that really is an important way for people to be able to file electronically, which means that their returns tend to be more accurate, because there aren't arithmetic errors and things like that involved, and they get processed faster. IRS processes electronic returns in a matter of days, where paper returns can take much, much longer.

I will leave it to my colleague, Doug O'Donnell, to talk a little bit about the IRS outreach plans to communities, because that is really a bit more operational.

Mr. O'Donnell. Thank you, Mark.

And thank you, Congressman Horsford.

First off, I would say that, in addition to Mark's point on the Free File Alliance, there are also VITA sites that are available, as well as the tax clinics for the elderly, where we do work with those groups and communities across the United States to provide service to individuals that are in need.

I do think it is important to say a few words about audit coverage. While we do audit a large number of EITC claimants, the rate of coverage for the high-income, for example, above \$10

million, is at 8.1 percent, which, you know, when you compare that to 1.12 percent for EITC claimants, there certainly is a higher level or a higher likelihood that a higher-income individual will be examined.

That said -- and it has been part of the discussion from the beginning -- our coverage on the large multinationals, on the multitiered partnerships, on the high wealth is much lower than we think is appropriate for -- or that gives us the confidence in the system.

Chairman Thompson. Thank you.

The gentleman's time has expired.

Mr. Mazur and Mr. O'Donnell, thank you very much for your testimony.

And that will conclude our first panel.

So thank you both very much.

We will now turn to our second panel. I would like to introduce our three witnesses.

Janet Holtzblatt is a senior fellow at the Urban-Brookings Tax Policy Center. Previously, she served in the Federal Government for over three decades, including as the unit chief for tax policy studies in the Tax Analysis Division of the Congressional Budget Office and Deputy Director of the Individual Taxation Division in the Office of Tax Analysis at the U.S. Department of Treasury.

Steven Dean is a professor of law at Brooklyn Law School. He previously served as vice dean at Brooklyn Law School and, while a visiting professor of law at NYU School of Law, as faculty director of its Graduate Tax Program.

And, finally, Nina Olson is the executive director of the Center for Taxpayer Rights, a nonprofit organization dedicated to advancing taxpayer rights in the U.S. She is a former IRS national taxpayer advocate.

Ms. Holtzblatt, please proceed with your testimony. You are recognized for 5 minutes.

STATEMENT OF JANET HOLTZBLATT, SENIOR FELLOW, URBAN-BROOKINGS TAX POLICY CENTER

Ms. Holtzblatt. Thank you for having me here today to talk about the tax gap and improving the tax administration for the 21st century.

The views I express today are my own and should not be attributed to the Urban-Brookings Tax Policy Center, their boards, or their funders.

In this short testimony, I would like to make three main points: First, boosting the IRS enforcement budget after a decade of deep cuts would generate more revenue than it would cost. Two, it is not enough to increase the number of audits; improvements in the selection and operation of examinations are also necessary. And, three, before the IRS can hire and train new staff and invest in the 21st-century technology, the agency must be assured of sustained funding.

The witnesses in the previous panel described the deep cuts in the IRS budget over the past decade. I am going to focus on the impact of those cutbacks on revenues.

Just as funding for the IRS has dropped by over 20 percent since 2010, so has been the amount of enforcement revenues. Those revenues have declined by about 25 percent in inflation-adjusted dollars during the past decade.

Now, it is possible that a decline in resources could cause enforcement revenues to increase relative to the labor cost of audits. That would occur if a resource-constrained IRS became more selective, focusing on the examinations with the highest return on investment than might otherwise be the case.

My research collaborator, Jamie McGuire, and I have explored this question in a study of tax audits conducted in 2010 and 2017. We found, on average, that the amount of recovered taxes, just taxes, was four times the cost for all types of audits in 2010, but the return on investment for correspondence audits was about three times larger than for in-person audits.

Now, that is not a surprising result. Unlike in-person audits, correspondence audits are generally limited to a few items on a tax return and, as the name suggests, are conducted through the mail. Much lower-paid IRS employees are assigned to work those cases too.

Somewhat more surprising was our finding for audits conducted in 2017. The return on investment for the in-person audits declined, although it did increase for correspondence audits. One reason for the difference was in terms of staffing. There was a shift to even lower-paid staff working correspondence audits and a shift to even higher-paid staff working in-person audits.

Our analysis thus far has focused on the cost portion of the return on investment. However, other data from the IRS reveal certain trends in audit assessments that might have contributed to the fall in the yield for in-person audits since 2010.

It is important to note, audits don't always end up with a tax bill for taxpayers. For example, the revenue agents did not recommend any additional assessments in 11 percent of individual audits

closed in 2019. That was about a drop of 3 percentage points from 2010. In contrast, the average no-change rate for large corporations, those with \$10 million or more in assets, rose from 28 percent in 2010 to 38 percent in 2019.

That leaves some important questions that might be addressed by more research on these audits. Was that observation because of poor targeting of audits, or was it because highly skilled tax advisors successfully framed their clients' very aggressive positions as legal avoidance rather than illegal evasion? Can investments of staff and technology alone overcome those challenges, or are changes to the Tax Code also necessary to close off opportunities for aggressive avoidance?

In addition to the funding, the President is also proposing multiyear budgeting by removing part of the IRS's budget from the annual appropriations process and making that portion mandatory. That is a smart move. The IRS needs to be able to make long-term commitments in staffing and capital investments to ensure a steady return on investment over time. But, without guardrails, future administrations and Congresses might bow to temptation and shift funding from base activities to the mandatory portion of the budget.

Regardless of those concerns, I think one thing is certain: At this juncture, increasing the IRS's enforcement budget after a decade of deep cuts will yield revenues in excess of cost. And those savings will show up where it matters the most: an increase in Federal revenues, a smaller deficit than would otherwise be the case, and perhaps an increase in public confidence in the integrity and fairness of the tax system.

And I thank you for the opportunity to testify today.

[\[The statement of Ms. Holtzblatt follows:\]](#)

Chairman Thompson. Thank you very much.

Professor Dean, you are recognized for 5 minutes.

STATEMENT OF STEVEN DEAN, PROFESSOR OF LAW, BROOKLYN LAW SCHOOL

Mr. Dean. Thank you.

Chairman Pascrell, Chairman Thompson, Ranking Member Kelly, Ranking Member Smith, and members of the committee, thank you for inviting me to share these views on how to improve the fairness of our tax enforcement.

In my testimony today, I will explain why a race-blind approach to tax enforcement produces bad tax policy. Ignoring race doesn't solve problems; it creates them.

You have already heard from ProPublica that the 10 most heavily audited counties in the United States are Black and poor, but if you listened only to tax experts, you could not be blamed for overlooking race. Just last night, The New York Times posted an op-ed written by five former Treasury Secretaries describing those counties simply as "rural counties in the Deep South," with no indication that they are overwhelmingly Black and LatinX.

I will tell you how we can do better.

Sam Gilliam is an abstract impressionist painter. To most of the world, Gilliam is known as a path-breaking abstract artist, "one of the great innovators in postwar American paintings." But for students in an introductory Federal income tax class, Gilliam is simply a man who was arrested on a business trip after reacting badly to medication his doctor prescribed.

The textbook I long used makes no mention of the fact that Gilliam is Black. The Tax Court case does not reveal his race. It does detail mental health treatment he received, where and when he was born -- that is Tupelo, Mississippi, in 1933 -- where he received his master's of arts in painting -- that is the University of Louisville -- and where he had exhibited his paintings -- "numerous art galleries throughout the United States and Europe."

The textbook follows up with four separate notes, two with subparts, to encourage students to grapple with legal issues raised by the case. None of them mention Gilliam's race.

I learned that Gilliam was Black by accident, in a museum. From then on, I encouraged my students to consider how Gilliam's race might have influenced his tax outcome. I hope they also considered why neither the case nor the textbook acknowledge the role that Gilliam's being Black may have played in shaping his treatment on the flight, his arrest and prosecution, or the successful government challenge to a deduction of the costs arising from his business trip that added insult to injury.

Gilliam's legal expenses were found not to be "ordinary" and, therefore, were not deductible under the law's ambiguous standard for business expenses, unlike expenses for, quote, "causing

an accident which resulted in injuries to a child," "an unsuccessful criminal defense to securities fraud charges," and, "assault with intent to rape," all of which had survived similar challenges.

The tax law's insistence on ignoring race, burying it, does not make it go away. It simply creates land mines that at any moment could hurt individual taxpayers like Sam Gilliam. Those land mines can also derail important efforts, as they did in 2000.

The Organization for Economic Cooperation and Development provoked and quite spectacularly lost a confrontation with the Congressional Black Caucus over racial profiling when it attempted to impose sanctions on Liberia but not Switzerland for being a tax haven.

How damaging can these buried land mines be? Remember that Eric Garner, whose last words, "I can't breathe," fueled the rise of the Black Lives Matter movement, would be alive today if not for anti-Black tax enforcement.

However helpful they have proven in the context of policing, body cameras will not solve the problem of race in tax enforcement. Fortunately, we have another powerful tool that can shed much-needed light on the way race affects tax enforcement: data.

Experts have honed the craft of using tax data in concert with other sources of information. They use it to tell incredibly rich stories about our lives. On my podcast, one economist described his work using IRS information to determine which colleges provided the most opportunity. "The best data that we have in this country on student outcomes, student backgrounds, and even where you go to college is collected as part of the tax system," end quote.

We don't need more information, although more transparency would certainly be helpful. We simply need to use what we already have stored away more creatively. The tax law should not be creating more Sam Gilliams or Eric Garners. It is up to all of us here today to make sure that it does not.

Thank you.

[\[The statement of Mr. Dean follows:\]](#)

Chairman Thompson. Thank you.

Ms. Olson, you are recognized for 5 minutes.

STATEMENT OF NINA OLSON, EXECUTIVE DIRECTOR, CENTER FOR TAXPAYER RIGHTS

Ms. Olson. Mr. Chairmen Thompson and Pascrell, Ranking Members Smith and Kelly, and members of the subcommittee, thank you for inviting me to appear today to discuss 21st-century tax administration and the tax gap.

I will address the need to protect taxpayer rights and minimize undue burden as the IRS undertakes transformational change to address the tax gap.

As the IRS applies resources and skills toward the upper income levels, we have to ensure that middle- and lower-income taxpayers, including unrepresented taxpayers, are not given short shrift.

Toward that end, I recommend the IRS embrace its dual role as both revenue collector and social benefits administrator by creating a Family and Worker Benefits Unit and adopting strategies, measures, and staffing appropriate for its benefits mission.

Failure to improve taxpayer service, particularly to vulnerable populations, will risk increasing the tax gap by not meeting the needs of taxpayers who in good faith are trying to comply with the law.

There are a few things we should remember as we try to narrow the tax gap.

First, we shall never close it; we will only narrow it.

Second, the drive to enforce the tax laws cannot come at the expense of taxpayer service.

Approximately 2 percent of the \$3.6 trillion the IRS collects each year comes from the direct enforcement actions. The remaining 98 percent comes from the indirect effect of a mix of people's fear of the IRS and their desire to be compliant with tax laws. When these taxpayers have problems, they call the IRS, yet the IRS routinely answers less than 50 percent of calls and, this year, at times, answered only 2 percent of the calls to its main IRS 1040 number.

The IRS does not have a 360-degree view of taxpayer accounts because there is no database in which all taxpayer information is stored or linked, so assisters can't provide issue resolution to callers. This lack of a full picture of the taxpayer's tax life has significant consequences not only for taxpayer assistance but also for audit selection, collection prioritization, and protection of taxpayer rights.

Taxpayer service, which is so important to achieving the level of compliance we have today, must be funded to maintain that level.

Third, the tax gap does not equal tax evasion. Framing noncompliance as tax evasion not only undermines compliance among the currently compliant, who feel like they are naive for complying, but it creates an environment in which IRS staff can feel justified in undermining, if not outright ignoring, taxpayer rights and protections.

Tax noncompliance is a continuum of behavior with many causes, including tax law and procedural complexity and economic downturns. We should not treat a taxpayer who has simply made a mistake in the same way as a taxpayer who is actively evading tax, and we should not equate legal tax avoidance with tax evasion. Doing so obfuscates the need for fundamental tax reform.

Fourth, intelligent use of data can improve tax administration enormously if it is fit for the purpose intended and used in algorithms and other techniques that mimic human reasoning and if it does not displace human decision-making and discretion.

Today, IRS data use is mired in the 1980s, with some notable exceptions. There is heavy emphasis on data matching and rule-based systems that rarely include feedback loops. Many IRS systems have high false-positive rates and abatement rates. The IRS also does not use data proactively to alleviate burden and prevent harm to taxpayers.

On the other hand, research shows the IRS-automated or systemic assessment of penalties increases taxpayer burden and future noncompliance. And we should be very wary of IRS audit approaches that appear to have high return on investment, like correspondence exams. Research shows these audits have high default rates and inconsistent deterrent effects and are viewed as unfair by those subject to them. Taxpayer protections should be expanded in this area.

Finally, proposals to expand information reporting are very promising, but they must be accompanied by taxpayer protections. Bank account information alone is not prima facie evidence of underreporting. Therefore, if Congress authorizes financial account reporting, it should prohibit the IRS's use of this data in mere information document matching. Congress should also extend the burden of proof protections under Section 6201(d) to apply to IRS examination and matching activities.

In my written testimony, I have made many other recommendations, including proposing a new procedure, the Taxpayer Rights Impact Assessment, to ensure the IRS incorporates taxpayer rights and minimizes administrative burden in its initiatives.

Thank you for the opportunity to appear today.

[\[The statement of Ms. Olson follows:\]](#)

RPTR DEAN
EDTR HOFSTAD

[2:59 p.m.]

Chairman Thompson. Thank you, Ms. Olson.

Without objection, each member will be recognized for 5 minutes to question our witnesses. As previously stated, we will not observe the Gibbons rule for this remote setting and will instead go in order of seniority, alternating between each subcommittee and between majority and minority members.

Members are reminded to unmute yourselves when you are recognized for 5 minutes. Also, if you are not speaking, please mute. We are getting a little feedback now.

I will begin by recognizing myself.

Ms. Holtzblatt, thank you for joining us today.

We have heard today that it will take several years for the IRS to fully implement the administration's enforcement proposals because, at the outset, new renew agents will need to be trained to analyze complex returns and develop the required skills to audit sophisticated taxpayers.

During this time, how can you ensure that the IRS will not use additional funding to increase correspondence audits, which are easier to conduct and disproportionately focus on the poor?

Ms. Holtzblatt. Well --

Chairman Thompson. Wait, wait, wait. Before you answer, let me say it again: If you are not speaking, please mute, because we are getting a little feedback from someone.

Thank you.

Ms. Holtzblatt. Thank you for your question.

Personally, I cannot speak for the IRS and ensure what they will do with the additional funding. I believe that they have made a commitment, very much so, in their language that the new audits are going to be targeted to higher-income people and to big businesses. However, there is some other language in the Treasury report that says that the IRS will also would not audit people with actual income under \$400,000 at a rate that was greater than in recent years. That statement is open to some interpretation.

But the issue really is that correspondence audits are not substitutes for in-person audits. For in-person audits, you do need the additional funding to hire more people who have the potential to handle complicated tax returns and train them. I like what the Deputy Commissioner had said, that they are going to try and hire midlevel professionals, because those individuals require a lot less training.

But, it is really up to the administration and Congress to keep that commitment that they are making right now.

Chairman Thompson. So my concerns are real, and it is something that we should be mindful of.

Ms. Holtzblatt. I think you need to be mindful in all cases.

Chairman Thompson. Thank you very much.

I will now recognize Mr. Smith for 5 minutes.

Mr. Smith of Nebraska. Thank you, Mr. Chairman.

Thank you to our panel as well. I think we have had a great exchange of information so far here, and I think we are going to continue in that direction.

A lot has already been said about the unauthorized release of personal information from taxpayers' tax returns. I am disturbed mostly by the parallel message politically that has been in the public square, front and center, for a while and that certainly follows the same pattern as the unauthorized release of taxpayer information. It has been said that perhaps it is a state actor wishing to sow discord. I guess I would ask everyone involved, if that is the case, to not assist in that. I think that is particularly dangerous.

Ms. Olson, I was fascinated by your testimony. I think it is particularly useful and timely.

Now, can you repeat the percentages of revenues that are obtained by -- I can't remember your terminology, whether it was active collection or passive collection, but it seemed to be significantly different. Can you repeat that?

Ms. Olson. Yes. So, in 2007, 1.6 percent of the \$3.56 trillion that the IRS collected was attributable to direct enforcement action, which would be collection actions, audits, things like that.

The rest, I rounded it to 98 percent, is attributable to some mix of the indirect effect of having an audit presence and taxpayer service, that taxpayers want to comply with the laws.

And so my point was, if you erode taxpayer service and just beat the enforcement drum, you are really risking increasing noncompliance from the already-compliant taxpayers.

Mr. Smith of Nebraska. Wow. That is fascinating.

You know, the proposition that just hiring more auditors is the answer I find particularly troubling, and especially when we know we have experience from the 1990s of the IRS being overly aggressive and virtually harassing the taxpayers -- compliant taxpayers, I will emphasize.

So I hope that we can responsibly address this tax gap in a thoughtful manner that does not result in law-abiding, taxpaying, hardworking Americans getting harassed.

I kind of sense from some of the discussion both here today and outside this discussion that, well, you know, the harassment of taxpaying Americans who are compliant, you know, that is just a little byproduct of -- maybe a little collateral damage, you know, in this mission to generate billions and billions of dollars more than are currently being collected.

I would hope that -- and, Ms. Olson, I would be curious to know what you think we could do on the customer service end, where you said, what, the IRS only answers about half of the phone calls received? Is that accurate?

Ms. Olson. Well, depending on what lines you look at, this filing season, it was as low as 2 percent or 5 percent of the calls that came in. Some of that is the result of the COVID and difficulty in the -- you know, remote working, and also an increase in calls, which shows you that taxpayers really want to communicate with the IRS and hear from the IRS what is going on with their accounts. They are willing to do self-service up to a point. But this is the IRS, and bad things can happen to you if you cannot communicate directly.

And, really, the only answer to that is more staffing on the taxpayer service side. It is just a mathematical equation of how many employees do you have and how many calls do you get in. And call-back technology is definitely important.

But, dealing with the IRS is not like getting an airline ticket or buying a package, something on Amazon. You know, it has serious consequences. And people want to talk to an IRS employee to know that they are heard and their issues are being addressed.

Mr. Smith of Nebraska. Uh-huh. Yeah, I would hope that we could, in a bipartisan manner, agree that starting with the customer service would be a great and most effective place to begin to help taxpayers achieve compliance, and especially when I believe there is a willingness to do that, because that is what compliance is about.

So thank you to our witnesses, and thank you, Mr. Chairman. I yield back.

Chairman Thompson. Thank you, Mr. Smith.

Mr. Pascrell, you are recognized for 5 minutes.

Mr. Pascrell. Thank you, Mr. Chairman.

I would like to ask my first question to Dr. Janet Holtzblatt.

Ms. Holtzblatt, in your testimony, you discuss the potentially adverse effects of fewer orders on voluntary compliance. How do you think the disclosure of the purported tax returns on some very wealthy Americans, showing in some cases no taxes paid, could affect levels of voluntary compliance?

Ms. Holtzblatt?

Ms. Holtzblatt. Sorry.

We don't really know. It certainly doesn't help in terms of morale and taxpayer confidence in the fairness of the system. Hopefully, people remain honest about their own liabilities in light of the news about how other people are able to avoid the taxes.

Mr. Pascrell. Yeah.

You know, when you look at the numbers, regardless of who is providing them -- and you know exactly what I am talking about -- when you look at those numbers -- and you are perceiving numbers about people who are trying to get away with something, for the most part. It may be something they do unconsciously. Who knows? It would seem to me that the numbers, regardless of who they are coming from, are stark and that there is a big gap. We are talking about a gap -- there is a big gap, you know, from what is owed and what is eventually paid.

Now, much of this money is moved into, like -- from income into assets. And there is a big difference between the two in how the two are taxed and how they are umbrella'ed sometimes with legislation that we passed. I mean, it is absolutely accommodation from the Congress. We had something to do with the writing the tax law and editing it and reforming it.

But it would seem to me that the levels of voluntary compliance, how we strengthen that is not simply to uphold the law and review -- and the fact that some people are not paying any taxes at all, how can you justify that? I don't understand it.

And there are some people that are on to distractive issues on the point of the gap that, you know, it takes us away from the central point of who is paying their fair taxes. Do you agree?

Ms. Holtzblatt. There is something to be said about that. There is this gray area between illegal evasion and aggressive avoidance. And there are ways in which Congress could act and the administration could act to unblur the tax code, make it more black and white in terms of what the law is, so that those that have the resources are not able to take a position that is very aggressive and argue with the IRS that this is, in fact, legal.

Mr. Pascrell. We haven't had real tax reform since 1985, when Bradley and Congressman Kemp were around. Both parties are guilty and are at the bottom and the source of all of these inconsistencies. Let's face it. Let's address it. There are no good guys and bad guys in this situation, I will tell you that. And I think we need to do something about it rather than talk about it.

Professor Dean, you suggested in your testimony that the IRS does not need additional data to help us improve the fairness of our tax enforcement but, instead, we need to utilize the data we have more creatively.

What do you mean by that? Give me an example.

Mr. Dean. Thank you so much.

So the question that I was focused on in my testimony -- thank you for the question -- is how we ensure that enforcement is being carried out in a racially evenhanded manner.

And one of the questions that often arises in that context is whether the IRS should be asking taxpayers their race, right? So the 1040 doesn't ask you your race, although many government forums do. And what I was suggesting is that, in order for the IRS and Treasury generally to determine whether or not enforcement is being done in a racially fair manner, they would not necessarily need to start collecting race information from taxpayers. They are sitting on a rich trove of information, and they have some incredibly talented people working in data, and they

could make sure that they were doing things fairly without starting to collect more information from taxpayers like that.

So I didn't mean to suggest that they couldn't do more with more information. I am just suggesting that they could do better with the information they already have.

Thank you.

Mr. Pascrell. Thanks, Professor Dean. Thank you so much.

I had one other question to ask Ms. Olson, but my time is up, so, Mr. Chairman, thank you.

Chairman Thompson. Thank you, Mr. Pascrell.

You know, consistent with our committee practices, we are going to be using a two-to-one questioning ratio. So, at this time, I will recognize Mr. Suozzi to inquire.

Mr. Suozzi. Thank you, Mr. Chairman. I am not going to ask any questions this time. I am just going to make a brief comment.

You know, no one is suggesting that the answer to this is to simply hire more enforcement agents, as was suggested by Mr. Smith. Hiring more enforcement agents is a very big part of this, but we need to have more customer service people, we need to upgrade the information technology systems, we need to make better use of the data.

There is no question that the IRS has been gutted over the past decade, and more than that, from the previous hearing we had, where I talked about the number of employees are half of what they were, in revenue agents and others.

So we need a comprehensive approach to not only serve taxpayers better, give them more information, but also to be more equitable and to do better enforcement as well. Because the audit rates have gone down so precipitously over the past 12 years.

There is a great -- you know, I remember how upset Republicans became when there was talk about eliminate or abolish ICE. Okay? I came out and supported -- got in a lot of trouble for it -- because I don't think we should abolish ICE. We should reform ICE and make it better. But it was just as nonsensical when people said, "Let's abolish the IRS." That is when Republicans were calling for abolish the IRS. It is absurd.

We need to do a better job recognizing that the IRS has an important job to do to benefit all the people of the United States of America by collecting taxes in a fair way for the people that owe their taxes. And that is going to require all these different things -- have upgraded information technology, upgraded levels of staff, better public-facing programs -- to do their job.

We can't just be against government, against the IRS. There is a role for government, and collecting tax revenues is one of them. And we just need to do a better job.

This should be the last issue that should become a partisan fight. Everybody should be in favor of making the IRS as robust as possible, as fair as possible. Do we want to go back to people

abusing, as was pointed out, taxpayers or unfairly -- no, nobody wants that. But let's collect our fair share of taxes from people that owe their taxes.

And when you are only auditing 2.5 percent of the people that make over a million dollars a year and you have decreased the auditing of corporations that have over a billion dollars of net worth in market value -- I think it is 51 or 65 percent; I can't remember the number -- something is wrong.

So let's work together, let's make this the robust agency that it should be, and let's try and collect our fair share of taxes from people on an equitable basis using the modern tools and technology that we have available to us.

And I yield back, Mr. Chairman.

Chairman Thompson. Thank you, Mr. Suozzi.

I will recognize Mr. Rice for 5 minutes.

Mr. Rice. Can you hear me okay?

Chairman Thompson. Yes.

Mr. Rice. Good.

You know, the Bill of Rights in the Constitution exists to protect the rights of citizens and to constrain government from interfering with their freedom. And the IRS is an incredibly powerful Federal bureaucracy. It is one of the few that can seize your assets with no hearing. With no, even, notice, they can seize your assets.

The IRS has all too often abused the rights of citizens. It has been used as a political tool in recent history to attack citizens of a particular political persuasion. And the citizens have every right, in fact, the responsibility, to be extremely skeptical of expanding the powers and reducing the oversight over the IRS.

I think the idea that we would allow the IRS automatic access to bank account records of citizens is absurd. I think the idea that we would reduce the ability for Congress to have oversight over the IRS by making their funding mandatory is ridiculous. I will never support either one of those ideas.

We, in a bipartisan fashion, in recent history, have sat in hearings and questioned the IRS on abuses. It routinely happens, almost every single year. And the idea that we would expand that power and make it have more difficult to have oversight over them is absurd.

I absolutely agree that we should do what we can to close the tax gap. I absolutely agree it is ridiculous that the IRS is working on computers that run COBOL that were manufactured in the 1980s. I would assert that that has far less to do with funding and more to do with incompetence at the IRS, that they are unable to accomplish what pretty much every other Federal bureaucracy has accomplished in modernizing their equipment without this massive increase in their funding.

You know, when I sat on the Oversight Committee 5 years ago and they said that they were running 300 different systems and that they had 200 points of failure, where only one guy knew how to program the computer and when that guy retired or died that they were just out of luck, is completely incompetent and absurd.

And I am very curious to see how much progress has been made. And if they can justify spending additional money to bring their technology into the 21st century, A, I promise you that it will close the tax gap significantly, and, B, I will be first in line to support that.

But it is not that we haven't provided funding for additional technology in the past. It is simply, when we have given them that money and they have spent it, they have said, well, I guess we learned how not to spend that money.

So, no, I completely agree, we need to bring the technology up to date and we will need less people. And it will also help close the tax gap. But the idea that we would give them enhanced ability to look at people's bank accounts is absurd. The idea that we would reduce our oversight ability by making their funding mandatory is ridiculous. And with respect to any other ideas to close the tax gap, I am all ears.

I yield back.

Chairman Thompson. I thank the gentleman.

Dr. Chu, you are recognized for 5 minutes.

Ms. Chu. Ms. Holtzblatt, in your testimony, you note that not only have audit rates decreased for larger corporations over \$20 billion but the occurrence of those corporations walking away without any additional taxes collected has also increased. That is alarming.

What does that dynamic look like in real dollars or as a share of GDP?

Ms. Holtzblatt. I don't have those figures with me. We do have information that is reported by the IRS in terms of how much was refunded to the corporations. I can't say what they ended up not paying, but I can certainly forward that other information to you after this hearing.

Ms. Chu. That would be great.

Ms. Holtzblatt. Okay.

Ms. Chu. Now, I am a member of the Small Business Committee, and I am concerned that, while the largest corporations are using their vast resources to game the tax system, small businesses don't have those resources yet are trying to compete for business against those larger groups.

Have you done a similar analysis of the audit rates of small businesses as you have for large corporations? And how does these large corporations' avoiding their taxes negatively impact smaller businesses' ability to compete fairly in the market?

Ms. Holtzblatt. That is a very interesting question. It gets down to your after-tax profits and your ability to, for example, have the resources to hire the lawyers who can help you with your dealing with the IRS.

Again, I don't have at my fingertips the audit rates for the smaller businesses, but I will forward that to you as well.

Ms. Chu. Thanks.

Ms. Holtzblatt, it is clear that making investments in the IRS would have an overall positive return on investments for revenues raised through greater tax compliance. And your testimony notes both the quality and quantity of audits needs to be improved, and I don't believe we can do that without the multiyear funding requested by President Biden and supported by Commissioner Rettig.

Given your previous experience with CBO and the Budget Committee, do you have any additional thoughts for this committee about what safeguards we should put in place to ensure that mandatory funding does not supplant the annual discretionary funding?

Ms. Holtzblatt. I have been struggling with that. I know that there is a similar kind of program in the Medicare/Medicaid area for health fraud, where there is a portion that is appropriations, a portion that is mandatory. I am not steeped in knowledge of how that works, but that could be a model, in terms of how they do that correctly and how they do it incorrectly.

I would turn to the budget experts at OMB, CBO, and the Budget Committees, perhaps, for more advice on how to do this correctly, in terms of constructing the safeguards. I just know that you need to get safeguards in there in order to avoid the kinds of games that all of us play with our money.

Ms. Chu. Absolutely.

Thank you, and I yield back.

Chairman Thompson. Thank you, Ms. Chu.

Mr. Schneider, you are recognized for 5 minutes.

Mr. Schneider. Thank you, Mr. Chairman. And, again, I want to thank you and Chairman Pascrell for this hearing and our second panel for staying with us for what has been a long hearing.

One of the central principles that I believe has to be a part of our tax system is fairness. And we have heard much about the ProPublica release last week, the report and, you know, the fair concerns about where that data came from, but there is information in the data that I think is important to touch on.

You know, we saw that, in 2018, there were 25 individuals who were worth \$1.1 trillion. For comparison, it would take 14.3 million -- I will repeat that -- 14.3 million ordinary American wage-earners to put together an amount equal to that number.

The personal Federal tax bill for those top 25 was approximately \$1.9 billion, whereas for the 14.3 million, their bill for taxes on the wages they earn was \$143 billion. Let's be clear what that means. It means that those 25 individuals collectively with the same wealth as the annual earnings of 14.3 million were paying 1/100th of the amount of taxes.

And that raises a question of what is fair. It is a broad question for sure, but that is what happens when we don't have a sufficiently funded IRS. The tax gap grows, the rich get away with taking deductions, having offshore assets, et cetera, but it creates a definite sense of unfairness.

And, in the context today of this tax gap, we are not talking about raising taxes; we are simply talking about making the investments in the resources, in the skilled and trained people, and the systems they need to do their jobs to make sure that everyone pays the taxes that they owe.

So my question for the group is, how will addressing the tax gap affect equity? What degree will we have of ensuring fairness in making sure that people do pay their taxes?

And I will open it up to anyone on the panel.

Ms. Olson. I think that it is very important for the taxpayers of the United States to know that the IRS is taking the appropriate steps to ensure that people are paying the taxes that are legally due and owing.

To me, voluntary compliance is really the name of the game, because, you know, enforcement is so expensive. So you want people to feel that the agency is using its power legitimately, not coercively and not disproportionately, even as it is also providing service to people and builds trust in that way.

And that is why I have recommended that you really think carefully about that balance between using legitimate power and building trust with all of the taxpayers.

And, you know, I think I share the concerns about mandatory funding, that the IRS is under a lot of pressure and there are many demands on it, and so there need to be great safeguards to make sure that it does what it is supposed to. I also think that you need to watch very carefully, by oversight hearings, that it is delivering what you are expecting of it on time. Because, often, it gets awry and off-schedule. I have witnessed that for 18 years when I was the national taxpayer advocate.

Mr. Schneider. All right.

In the last minute, Mr. Dean or Ms. Holtzblatt?

Ms. Holtzblatt. In terms of equity, we need to level the playing field more. We need to understand the audits and understand why, for example, more rates of favorable audit decisions for some groups of taxpayers versus other taxpayers. As I have said, that about 4 out of 10 large corporations come out of an audit with no change in their tax bill; in contrast, for EITC returns, about 10 percent end up with that kind of result, but that may also be because many of them never respond to the IRS audit.

And that gets to an issue that Ms. Olson has raised on many occasions, which is the benefit to lower-income people of providing them with assistance in going through the audit process, making it easier for them to be able to respond to an IRS request for documentation.

So, to the extent to which you maintain audits across the board, there also is the need to maintain equitable treatment of taxpayers, providing them all with opportunities to be able to respond to the IRS in the way that can get them the right result.

Mr. Schneider. Great. Thank you.

My time has expired. I yield back.

Chairman Thompson. The gentleman's time has expired.

Mr. Smucker, you are recognized for 5 minutes.

Mr. Smucker. Thank you, Mr. Chairman.

Ms. Olson, I asked a member of the former panel some questions in regards to the ProPublica information that was just released. And, of course, they were very concerned about that as well. I assume you are very concerned about that as well?

Ms. Olson. Absolutely. And I have spent a lot of time trying to think about how that could happen. Because, as Deputy Commissioner O'Donnell said, every IRS employee has annual training on unauthorized access, and there are a great deal of safeguards in being able to access information. And unauthorized access is tracked not just by the IRS but by the Treasury Inspector General for Tax Administration. They have access to IRS systems to see patterns of unauthorized access.

So I will be -- it is very disturbing if it is a possible IRS employee or IRS contractor. I do want to say, maybe it is someone in the accounting firm that had access to that information, you know? So we really don't know, and we have to wait and see, but it is profoundly disturbing.

Mr. Smucker. Yeah.

And some of the questions I have -- and it is not even particularly related -- I mean, it is related to this, but I know we will find a lot out after we learn more about this investigation. But, you know, it is not clear to me, entirely, what the penalties are if this is indeed an IRS employee. Can you speak to that at all?

Ms. Olson. Well, it is a crime. And it is also that they will lose their job, which is, of course, the least of it. But unauthorized access is or can be a criminal offense. And I am sure that we will see that roll out if they identify the person.

Mr. Smucker. Yeah.

And maybe you can answer this question a little better than the previous person I asked. You know, it certainly appears to me there like there could be political reasons for doing this. It fits with my friends on the other side of the aisle's narrative that the rich aren't paying enough taxes. They are certainly using it to try to make that case.

Would there be additional penalties if this were done for political purposes?

Ms. Olson. Actually, my understanding is, under the statute, that the actual political motive isn't what the issue is always with criminal offenses. It is, did you intend to do this thing -- namely, disclose or access private taxpayer information that you do not have the authority to access? And as long as that intent is there, you have the element of mens rea for that crime.

So whether there was a political motivation or not, at least for that particular offense, it would not be an issue. You know, that is my understanding of it.

Mr. Smucker. Can you tell me whether ProPublica could legally publish that information regardless of how they received it?

Ms. Olson. I am not an expert on First Amendment and, you know, those kind of requirements. I am not an expert on that. My focus has been on IRS employees and what they are authorized to do.

Mr. Smucker. Yeah. Yeah.

Ms. Olson. Sorry.

Mr. Smucker. And then the other point -- and I don't know whether you could speak to this or not, but, you know, this narrative that the wealthy are not paying enough in taxes.

I pulled up a chart -- and, Mr. Chairman, I would ask to have this submitted into the record, but, at the moment, I can't tell where this came from. It is not on this heading. So maybe I will just skip that for now.

But, you know, this breaks down by income quintiles, so the lowest 20 percent and so on, and what percentage of the total Federal taxes they are paying. The top 20 percent, in 2017, paid 87 percent of the total Federal taxes that were received, compared to -- this chart goes back to 1979. In 1979, that rate was 65 percent. So we have seen the wealthy paying more in taxes as a percentage of the total, you know, since 1979. And, in fact, the lowest 40 percent pay zero in taxes. In fact, they get money back, so that the bottom quintile pays a negative-3.9 percent, the next 20 percent pays a negative-0.8 percent.

So, I don't know, Ms. Olson, do you accept this narrative that the wealthy are not paying their fair share?

Ms. Olson. Personally, I don't like the discussions of the phrase "fair share." I think people should pay the taxes that are due and owing under the law. And I do believe that the IRS needs more resources and skills -- more skills, certainly -- and better technology to be able, in this very global and modern age, to make sure that folks engaging in complex transactions are paying what they should.

But, in looking at the ProPublica article, you know, there wasn't any indication that anyone was doing anything that was illegal. It was all legal, and it might have been -- it was tax avoidance rather than tax evasion.

Chairman Thompson. Thank you. The gentleman's time has expired.

Mr. Smucker. Thank you.

Chairman Thompson. Ms. DelBene, you are recognized for 5 minutes to inquire.

Ms. DelBene. Thank you, Mr. Chairman.

And thank you to all the members of our panel for giving us your time and insights.

Over the last decade, the IRS has faced significant budget cuts. Since 2010, Congress has decreased IRS funding by 23 percent. With a corresponding 22-percent reduction in workforce, these budget cuts have meant decreased enforcement activities, which has allowed corporations and wealthy individuals to avoid taxes. And a failure to update antiquated technology makes the IRS vulnerable to inefficiencies but also to cyber attacks.

It is not enough only to enhance resources; we have to make sure the IRS has sustained funding, which will boost revenues, improve taxpayer experiences, modernize technology, and ensure fairness, and also make sure that we do have a strong and skilled workforce.

Ms. Holtzblatt, I wanted to ask you, when we talk about workforce, I wondered if you could speak to where in the IRS the decrease in personnel has occurred and how that has impacted enforcement and audit activities.

Ms. Holtzblatt. A good chunk of the reduction in personnel has occurred in enforcement and collections. And perhaps of most concern is that a large share of that has been the reduction in the number \ of the revenue agents and the revenue officers. Those are the individuals who handle the most complicated tax audits, the ones who do the audits and who collect.

And I think a part of why we have seen that reduction that there was a hiring freeze between 2011 and 2018. The IRS has a population that is getting older, and you had large numbers of people retiring and they could not be replaced because of the freeze.

So the IRS has had a brain drain. And that has contributed to some of the slowdown in audits, because you are losing those skilled people. And to the extent a skilled workforce remains, they are the ones who are going to be responsible for training new hires and so forth.

I think that is a major contributing force. It is a heavily labor-intensive agency, and when you are losing your most skilled and experienced workers, you are going to have an impact on not only the number of audits but the quality and the length that they take.

Ms. DelBene. And that point on workforce training, I think, is critically important. We were talking in the first panel about, on the IT side, how students coming out today with IT skills aren't learning how to program in COBOL anymore and having to train them in old technologies to help work on IRS systems.

Obviously, the folks who have the skills today on the audit side, et cetera, are critically important to training. But I think it is important, too, for us to think about the impact of out-of-date

systems, et cetera, what that has on our ability to make sure that we have a strong workforce going forward too. Do you agree?

Ms. Holtzblatt. Certainly.

And the good thing about hiring younger or more recent graduates is, although they have to pick up the COBOL programming language in transition, they already have the skills to do so. It is not going to be that difficult, generally, to go back and learn an old programming language, because the new languages are built on that. But they can also bring new blood and new knowledge and help bring the agency forward, one would hope.

Ms. DelBene. Yeah.

Thank you very much. I appreciate your time.

I yield back, Mr. Chairman.

Chairman Thompson. Thank you, Ms. DelBene.

Ms. Plaskett, you are recognized to inquire for 5 minutes.

Ms. Plaskett. Thank you very much, Mr. Chairman. I want to thank you for having these two panels offering perspectives on a number of issues related to closing the tax gap.

One of the questions that I have is a question that I asked the first panel that I think would be also interesting to have the second panel answer as well, and that is related to the reducing the tax gap, which, of course, focuses on IRS enforcement capabilities, but what somewhat has been lost in the discussion is the role of adequate taxpayer services.

Ms. Olson, I know that you talked quite a bit about that in your opening statement, and, you know, I recall how important your work has been and your assistance to my constituents, but wanted to know if others on the panel might have some opinions on that as well.

Ms. Olson. Well, I can certainly go first and let others --

Ms. Plaskett. Sure.

Ms. Olson. Taxpayer service is just absolutely vital. And it is not just in the form of picking up the phone, but it is in really rethinking how you present information to taxpayers, the extent of transparency, being able to explain things, the kind of on-the-ground assistance you give to people.

And I really believe that, as we are talking about fresh employees, new employees, you know, in many ways the old way of the IRS thinking about taxpayer service just doesn't apply in this environment.

On the other hand, digital is important, but, again, being able to talk to taxpayers is vitally important because of the power the IRS has over their lives.

Ms. Plaskett. Thank you.

Anyone else?

Mr. Dean. I would just say that, you know, one thing for people to keep in mind, the kinds of benefits being distributed through the tax system now increasingly, the history of the earned income tax credit as a benefit people perceive, it is just an incredibly complicated system, which has implications for enforcement. But just to mention that there is a program called VITA that is a system of voluntary income taxpayer assistance that is a way for the private sector to help support taxpayers in doing this.

And it just, to me, suggests how much need there is for help, that this is a, you know, basic, important service provided to help out hardworking Americans and we are relying on volunteers. Some of my students in the past have done this, and I think it is wonderful, but I also think it is horrible that we are relying on, you know, my students to help satisfy the basic needs of hardworking Americans.

Ms. Olson. If I may make a point on that, up until 2014, IRS employees -- you know, taxpayers could walk into a IRS taxpayer assistance site, what used to be called a walk-in site, and get their returns prepared by IRS employees. And they were the most accurate returns of any returns prepared. And the IRS cut that, thinking that they could save some money, which I have always thought was very troubling.

And the other side of that was that, because there were so many taxpayers wanting that assistance, they would call revenue agents and revenue officers out from their desks to actually help taxpayers. And that was very good, for RAs and ROs to see taxpayers who were trying to comply with the law, since every day of their lives they saw people that maybe weren't.

Ms. Plaskett. Thank you.

The last question I have -- and then I will yield back, and thank you again, Mr. Chairman, for this hearing -- is related to, when we talk about enforcement resources, some have called for a multiyear funding program that would not be subject to annual appropriations.

What are any of the members of the panel's thoughts about supporting or not supporting multiyear funding?

And, additionally, should there be a mandatory funding to provide stable funding on an ongoing basis to ensure that IRS has a stream of funds for such mandatory funding that has similar purposes like preventing fraud in Medicare and Medicaid?

And then I will yield back.

Ms. Holtzblatt. I spoke about this somewhat in my testimony, but I think it is critical that multiyear budgeting be provided to the IRS.

I know from when I worked at Treasury and met with people from the IRS, decisions about how to hire and where to invest money were really dependent on their confidence that the money would be sustained over time. You can't invest in capital unless you know you will have the

money when the bills come due, and you can't hire people unless you know you can pay them the following year.

On the other hand, I can understand people's caution in terms of providing this money on an automatic basis. And that, I think, requires more oversight. It requires the IRS to provide more information even now with respect to their plans and how they would use the mandatory money and provide milestones.

So there needs to be some accountability, and that also needs to be associated with more information coming from the IRS to allow Congress to be able to evaluate how that money is being used and if it is on track to meet the goals.

Chairman Thompson. Okay. Thank you very much.

Ms. Plaskett. Thanks, Mr. Chairman.

Chairman Thompson. Thank you.

Ms. Moore, you are recognized for 5 minutes.

You may have to unmute.

There you go.

Ms. Moore. Mr. Chairman, am I recognized?

Chairman Thompson. You are recognized.

Ms. Moore. Thank you, Mr. Chairman. And thank you so much for this distinguished second panel.

I am so happy to see you, Ms. Olson. And I am so happy that, when you gave your testimony, you leaned into the fact that the IRS is not only the agency that collects revenues and does tax enforcement but it is also a way to deliver important taxpayer services, you know, like the EIP that we provided to people during the pandemic, like the earned income tax credit, like the child tax credit. It is our main highway and delivery system for those things. And I appreciate your role as the taxpayer advocate and going on to continue this work.

That being said, you know, we have talked before about the situation that many, many primarily women found themselves in during the pandemic, where their abusers took the EIP checks, even though the women primarily had custody of the children. And we have tried to work with the IRS, and they perceived that they didn't have the authority to provide replacement checks.

And I was wondering if you could walk us through -- I have legislation, by the way, that would provide the authority for the IRS to do this. And I am wondering if you could walk us through how this is possible and what we can do and why this ought to be a priority.

Thank you.

Ms. Olson. Well, first of all, thank you for your leadership on this issue.

You know, your legislation identifies a funding source to be able to make replacement payments, but the IRS has the skills right now, in house, to be able to make determinations of whether someone is a survivor of domestic violence and whether the children resided with them during the period, so that, all things being equal, if there is a funding source, a payment could be made.

And working with domestic violence advocacy groups, we have identified a whole series of kinds of documentation that State agencies and local agencies and courts have accepted, you know, as evidence toward there had been a domestic violence situation that the IRS could definitely adopt. And so this is definitely something that they can do.

I would also say that this leads to my proposal that the IRS create a separate unit for family and worker benefits, so that just a whole unit, a division of the IRS understands that these are the populations and the issues that they may be facing and that they are responsible from beginning to end of that taxpayer's experience, including compliance but also these kinds of issues, so you have people in a "can do" mentality and looking for resolution and innovative ways to address the needs of the family and worker populations.

Ms. Moore. Well, thank you so much. This is really, really very, very important to me.

Do you think that this is a big ask of the IRS? I mean, you might have already answered it, but, you know, I was thinking, with this portal that we created, with all of the information the IRS has, you know, with my legislation and the authority, are we asking the IRS to do something that is outside of their wheelhouse and that they really can't do?

Ms. Olson. Congress created a provision called "relief from joint and several liability," IRC 6015, which is what we call the "innocent spouse statute." And, under that, the IRS regularly is faced with domestic violence and abuse situations.

They have a unit that is familiar with those issues. I personally have trained them on those issues. And so this is just building on the strengths of that unit and the knowledge that that unit has and expanding it and applying it toward a different issue, namely the EIP, as opposed to regular tax returns. But there is a unit that has those skills.

Ms. Moore. Well, listen, I thank you so much for continuing to be engaged. We are going to work with you on the creation of your new unit. We think it is a fabulous idea. And thank you so much.

And, Mr. Chairman, I am going to give back my 27 seconds.

Chairman Thompson. Thank you, Ms. Moore.

Mr. Beyer has another hearing. Is there objection to allowing him to go next?

Mr. Beyer, I am going to recognize you for 5 minutes. You owe Dwight Evans lunch.

Mr. Beyer. I will buy him coffee on Monday. Thank you, Mr. Chairman, very much. I really appreciate it.

And I would like to first just respond to my friend Mr. Smucker's comparisons of the percentage of taxes paid by the wealthiest between, say, 1965 and today, that that has been accompanied by an extraordinary concentration of wealth in those same people, that we now have wealth more concentrated in the United States than any time in the last 100 years. And a fairer comparison would be, what percentage of their income or wealth is being paid by the respective people? And I hope that we will look at that.

And, by the way, fairness is measured in many different ways, but the biggest thing is, what is the quality of our life after those taxes are paid?

And I am so pleased to have Ms. Olson here, a longtime taxpayer advocate, formerly of the city of Richmond, Virginia.

Nina, it is great to see you. And I just want to thank you very much. Especially in this last year, much of our constituent service has been with the taxpayer advocates, and they have been terrific and have just returned check after check to our constituents. So thank you very much.

And thank you for the many things you laid out in your long testimony. Given that 98 percent of phone calls are not answered by a live person, that is a -- as someone who likes to be in management, that is a disaster for management. My wife told me she was going to leave me if the business ever started answering the phone with electronic voicemail rather than a human being. It is amazing how successful you can be if you maintain that personal touch. So thank you for emphasizing that we cannot let closing the tax gap come at the expense of taxpayer service.

And I have a specific question, because, in your testimony, you talked about the vague math errors. And, having lived through this many, many times with the IRS where it says, "You filed it wrong, there is a mistake," but they don't tell you what the mistake is and you have no idea how to react to it, your recommendation that we amend IRC 6213(b)(1), et cetera, to require notice of assessment, et cetera, just seems brilliant.

Is there anybody leading on this right now in the House or Senate? Is there some bill I can co-sign?

Ms. Olson. I don't know of any. I just know this is a chronic problem, you know, people getting notices and they don't know why it is being adjusted, which, of course, leads to a phone call, the very thing that you could avoid if you had a clear notice.

And I also have to say that some of the notice issues are because of IRS archaic technology, that it takes a year to get notice language changed. So, even if you wanted to do something to fix it, it would take so long to fix it, which is crazy in an agency like that.

Mr. Beyer. Well, Madam Taxpayer Advocate, we will track down with Congressional Research Service and Legislative Services who is doing that, and, if not, we will help with you.

Because that is, just in the last year -- I am still managing my children's taxes, even though they are in their 40s. And, again and again, that specific issue comes up, that there was a mistake but we don't know what the mistake is and we don't know how to fix it.

So thank you very much.

And, Mr. Chairman, thank you for the time, and I will yield back.

Chairman Thompson. Thank you, Mr. Beyer.

Mr. Evans, you are recognized for 5 minutes to inquire.

Mr. Evans. Thank you, Mr. Chairman.

Mr. Chairman, I would like to ask this question specifically to Professor Dean.

Professor Dean, how would you expand refundable credits of CTC and EITC, addressing racial inequities in our tax system?

And then anybody else on the panel who has any comments on that.

Mr. Dean. Thank you so much, Congressman, for your question.

I think that a lot of what the Biden administration has already done, I think, is just incredibly valuable. The switch from the earned income tax credit and all of its complexities and all of the opportunities for enforcement to create problems for individuals, replacing that with the child tax credit is really an incredible step forward. And I applaud the Biden administration for doing that and working hard to make that permanent.

I do think that the effort to provide advance payment, which they are doing, is a really challenging step they are taking. It does seem they are doing a pretty good job of it so far, although we haven't really seen the results yet. So I think the direction they are headed is really a great one, and I think that, you know, your support of that would be excellent.

I do think that there are steps to be taken, certainly, on the enforcement side. You know, again, I can tell you the story about the heavy auditing of returns in those poor Black and Latinx counties. I think that that is one of the benefits of the switch from the EITC to the CTC, that there are just fewer traps for these really vulnerable taxpayers to fall into with that.

But I do think, in more general terms, understanding that more White taxpayers than Black claim the EITC would help in understanding that it is not a Black tax program; it is a program for all Americans who are working and need support.

So I think the moves that the Biden administration are making are helpful. I think they do need to do some inward-looking examination of how they are carrying out their enforcement. But I do think the IRS is doing a great job. I know that they are working very hard to enforce fairly, but they don't have the perspective they need, the information they need, to make sure they are doing it fairly.

But thank you so much for the question.

RPTR BRYANT
EDTR HOFSTAD

[3:59 p.m.]

Ms. Olson. If I might add something, I have a slightly different perspective. I think that the definition of a child in the Internal Revenue Code is really based in 1950s "Leave It to Beaver" families and that there is a lot to be done in the Code to really reflect the life circumstances and the family structures that we see in all families today, particularly those at the lower income level.

The other thing is that -- I think Dr. Holtzblatt has raised this -- you know, the auditing is correspondence exam, and it is a technique where people don't learn what they did wrong. Unless you actually manage to get through to a live human being, it is a machine that does the audit from every step of the way. There is no human interaction unless you can force yourself into that. And that is very troubling.

We did studies that showed that people, after they had been audited, had no idea what they had done wrong. And that is important, because one-third of the EITC population channels in and out each year, and so you don't have an opportunity to learn from your current year's mistake and then fix it for the next year.

And I think, you know, the family structure issue is going to be a problem with the advanced child tax credit, as your child moves with you in the current year that you are getting the payment for but the credit is being paid out to somebody else. And that is a design feature that we learn about as we do the 6-month test.

Ms. Holtzblatt. I just want to add that, when correspondence audits were expanded in the 1990s, the thought was that they would be less burdensome to lower-income taxpayers, because they would focus on a few issues and they would not have to be conducted in the office.

There is probably need -- I will not say "probably" -- there is need to consider look back on how to improve the process, but, in improving the process, this goal of less burden on those individuals than having to face the intensive in-person audits that other people with more complicated returns might have to face.

Mr. Evans. Thank you, Mr. Chairman.

I thank all of you. Thank you.

Chairman Thompson. Thank you, Mr. Evans.

Mr. Davis, you are recognized for 5 minutes to inquire.

Mr. Davis. Thank you. Thank you again, Mr. Chairman, for just an outstanding afternoon of serious discussion.

I want to thank you for inviting Mr. Dean, especially, to focus on the racial disparities of tax policy. You know, we are having more and more of these discussions now about race and the

role that it plays and its impact on public policy decision-making, and I commend you and Chairman Pascrell.

When we tax labor income at a higher rate than capital income, there is a racial gap in who benefits and who loses. When the Internal Revenue Service erects barriers for the incarcerated to receive their legal stimulus checks, there is a racial gap in who wins -- who benefits and who loses. When the top 1 percent are responsible for 70 percent of tax underpayments, yet the five counties with the highest audit rates are predominantly Black, LatinX, and Native American, there is a racial gap, again, in who wins and who loses.

I was thinking of Ida B. Wells, who said that the way to right wrongs is to shine the light of truth upon them. To address the inequality in the Tax Code and enforcement, I believe strongly that we need to collect as much demographic tax data as we can to shine the light.

Ms. Olson, I don't really have a question, but I do want to thank you just so much. I mean, you are an absolute hero of mine. And I want to thank you for the tremendous work that you did in helping us to ensure that incarcerated individuals would receive a degree of fairness as we deal with the whole coronavirus issue, as we deal with the economic impact of the pandemic. I want to thank you for that.

I mean, that is a group that oftentimes is overlooked and a group that is relegated to a certain kind of punishment because of their status. And we know that, disproportionately, there are population groups that are affected in that population.

Mr. Dean, I want to thank you for your focus on the issue of these inequalities and racial disparity and for highlighting the work of Delegate Christensen, the Congressional Black Caucus, and Chairman Rangel.

Could you further discuss the racial patterns in tax policies and enforcement and how we might be able to move in such a way that the policies that we arrive at takes into consideration a more clearer picture of what has been some of the historical precedence in our country?

So, if you could do that, I would appreciate it.

Mr. Dean. Well, thank you so much, Congressman Davis, for your question. It really is a privilege to be here with you to discuss these issues.

The good news and the bad news is that I am not asking a lot. What I am asking for is something that I think both Republicans and Democrats can easily agree on. And, as you noted, the story that I tell in my longer written testimony about a surprising alliance between George W. Bush and his Treasury Secretary O'Neill and the Congressional Black Caucus really does speak to how easy this is, right?

I am just asking for simple decency. I am asking for us to look at the way tax policies are designed and the way they are enforced and just to make sure that they treat Americans fairly.

Hardworking Americans are something that we all treasure, and I think it is really quite simple. I think it is important, as you say, to collect more information when we can, but we also have to do better with what we already have.

So thank you so much.

Mr. Davis. Well, thank you both.

And, again, Mr. Chairmen, I think maybe when the two of you got together, you just kind of hit a double home run. And so we thank you for the afternoon, and I yield back the balance of my time.

Chairman Thompson. Well, thank you.

The gentleman's time has expired.

I want to thank all of our witnesses for the great job that you did. You all shared some very important information with the two subcommittees that will help us move forward.

And I also want to thank the members. Thank you for hanging in there. You had great questions. And I think this truly is something that we can work together on in a bipartisan way to address both fairness and a better outcome with the IRS.

Members, you will have 2 weeks to submit any written questions to be answered later in writing. And those questions, along with your answers, will be made part of the formal hearing record.

Chairman Thompson. So, again, thank you all.

Mr. Pascrell, always a pleasure to partner up with you.

Thank you all.

And, with that, the subcommittee stands adjourned. Be safe, and we will see you in person next week.

[Whereupon, at 4:07 p.m., the subcommittees were adjourned.]

Questions for the Record

[Arrington QFRs](#)

[Walorski 1](#)

[Walorski 2](#)

[Olson Response](#)

Outside Submissions

[American Citizens Abroad](#)

[Independent Community Bankers Association](#)

[Center for Fiscal Equity](#)