

## ***President Biden's Tax Enforcement Proposal Will Advance Fairness and Protect Low-income People and People of Color***

We have a two-tiered system of tax administration in this country, one for the rich and one for the rest of us: regular workers pay the taxes they owe on wages and salaries—with a 99 percent compliance rate—while some wealthy taxpayers hide their income from the IRS so they don't have to pay. In fact, the top 1 percent evades over \$160 billion per year in taxes. President Biden's Build Back Better Agenda will create a fairer tax system – a tax system that requires the wealthy to finally pay their fair share and rewards work, not wealth.

President Biden's plan will give the IRS the resources and information it needs to increase enforcement against the highest income tax cheats, while protecting American earning less than \$400,000 per year. Today, low-income communities face a disproportionate share of IRS enforcement. The President's plan is designed to increase enforcement at the top and ensure low income communities and communities of color are treated *more* fairly. Cracking down on evasion among the wealthiest Americans will create a more equitable tax system, while helping to pay for historic tax cuts for working families and investments that will reduce inequality and grow the middle class. Specifically, President Biden's plan will:

### **Revitalize Enforcement to Make the Wealthy Pay What They Owe**

Most Americans pay what they owe, directly out of their paycheck every two weeks. There's a 99 percent compliance rate on wages—because wage earners get their earnings reported to the IRS. But the super wealthy who get their income from unreported sources are able to hide their income and avoid paying the tax they owe. In fact, each year the top 1 percent chooses not to pay more than \$160 billion in taxes. But today, the IRS does not even have the resources to pursue evaders. As a result of budget cuts, audit rates on those making over \$1 million per year fell by 80 percent between 2011-2018.

President Biden's Build Back Better Agenda will change the game—by making sure the wealthiest Americans play by the same set of rules as all other Americans. The IRS already receives information about all the income that accrues to ordinary Americans. The President's plan will require financial institutions provide a little bit of high-level information to the IRS on account flows, so that the IRS gets some information about earnings from investments and business activity that accrue disproportionately to the top, too. This will allow the IRS to better target enforcement resources and help enforce the laws especially when it comes to the highest income Americans who often earn their income in ways that don't get reported to the IRS unlike wages.

The President's plan will also make transformation investments in the IRS: hiring enforcement agents who are trained to pursue wealthy evaders, overhauling technology from the 1960s, and investing in taxpayer service, so ordinary Americans can get their questions answered. Additional enforcement resources are focused on pursuing those with the highest incomes; not Americans with income less than \$400,000.

Advocates and experts agree that President Biden's plan will advance racial and economic equity in the tax system. As Emory University Professor Dorothy Brown has written, "[p]roviding increased funding for the IRS to conduct audits is a necessary step toward a more equitable tax system. Rich white Americans should pay their fair share of taxes." This sentiment is echoed in a new Center on Budget and Policy Priorities (CBPP) report, which finds that, "today, a low-income person claiming the Earned Income Tax Credit (EITC) is about as likely to be audited as someone in the top 1 percent, even though EITC claims represent just 6 percent of the tax gap." CBPP's analysis concludes that "the Biden plan is designed to correct this inequity." A separate report from the Center for American Progress notes that, "recent trends in tax enforcement have worsened racial inequities," but finds that, "President Biden's plan is aimed squarely at fixing this unjust status quo. It equips the IRS to adequately examine the complex returns of wealthy individuals and corporations while ensuring that audit rates for people earning under \$400,000 will not go up."

## Cut Taxes, Lower Costs, and Create Good-paying Jobs for Working Families

The revenue raised from creating a more equitable and efficient tax system will help to pay for national priorities. Specifically, President Biden's plan will:

- Deliver historic middle-class tax cuts for more than 50 million American families – including nearly 4 million small business owners – by continuing the tax relief first provided in the President's American Rescue Plan.
- Lower health care, prescription drug, higher education, and child care costs through generational investments in the middle class.
- Add almost 2 million jobs per year on average across the whole decade through investments in education, manufacturing, health care, and other key industries.

### President Biden's Tax Enforcement Plan: Myth vs. Fact

President Biden's plan will ensure that high-income Americans pay the tax they owe under the law—ending the unfair system of enforcement that collects almost all taxes due on wages, while regularly collecting a smaller share of business and capital income. But there are several pernicious myths about the President's plan that should be addressed:

**Myth #1:** Banks will have to report individual transactions to the IRS.

- **Fact:** This proposal does not mandate reporting of individual transactions to the IRS. The President's proposal requires that banks report the most basic, high level information on account inflows and outflows. Imagine a taxpayer who reports \$10,000 of income; but has \$1 million of flows in and out of their bank account. Having this summary information will help flag for the IRS when high-income people under-report their income (and under-pay their tax obligations). This will help the IRS target its enforcement activities on those who are actually evading their tax obligations—decreasing costly and burdensome audits for the vast majority of taxpayers who pay what they owe.

**Myth #2:** Greater tax enforcement will create new burdens for taxpayers and financial institutions.

- **Fact:** Tax payers won't have to do anything at all. This will reduce burdens on compliant taxpayers by allowing the IRS to better target its audits to those actually hiding income and not paying their taxes. This isn't an onerous requirement for banks as they already report interest and other information on bank accounts. This is just a bit more information building off of reports that banks already provide the IRS.

**Myth #3:** The IRS already enforces the law in way that are racially inequitable and overburdens low income taxpayers relative to their share of the tax gap. Giving the IRS more resources and information will only make this worse and increase the burden on low income tax payers and taxpayers of color.

**Fact:** The Biden-Harris Administration takes this concern seriously, and knows that the reductions in the IRS budget have led to audit rates declining on the super wealthy more quickly than low income Americans. The Administration knows that this likely has had a disproportionate impact on communities of color. The Administration is actively working to fully understand and rectify this problem. This proposal was designed to help deliver on the Administration's commitment to equity. Closing the tax gap is one of the most progressive ways to raise revenue because it's the rich, and not working Americans, that are responsible for the greatest share of unpaid tax.

Additionally, President Biden's proposal comes with an explicit guardrail keeping the IRS from increasing rates audits on those making less than \$400,000 a year relative to historical averages, and because of this proposal, communities of color would be treated *more* fairly and be *less* likely to face costly and burdensome audits.

Fundamentally, this proposal is about ensuring that those at the top pay what they owe. The audit rate guardrails are key to the proposal and will protect working people.

**Myth #4:** This won't actually help catch wealthy tax cheats because they will just move their money to offshore accounts.

- **Fact:** Taxpayers and financial institutions already have to report offshore accounts for this purpose specifically, so moving money to offshore accounts won't help this avoid this new reporting regime.

# # #