

National Society of Accountants

Statement to the IRS Oversight Board Public Forum On Reducing the Tax Gap

Background

The tax gap is an estimate of the difference between the taxes—including individual income, corporate income, employment, estate, and excise taxes—that should have been paid voluntarily and on time and what was actually paid for a specific year.

Issue

The tax gap is a serious problem that impacts all organizations engaged in tax administration. The IRS cannot be expected to solve the problem on its own. Since the fundamental decision about being compliant begins with the taxpayer, it is essential to examine how various organizations can influence taxpayers' decision about compliance. Of all the numbers cited by the Taxpayer Advocate in her analysis of the tax gap as part of her annual report to congress, one stands out—the \$2200 “surtax” that individuals pay to subsidize noncompliance by others.

Solution

What can my organization do differently than it has in the past to reduce the tax gap? The National Society of Accountants (NSA) recognizes that multiple approaches are needed to reduce the tax gap. NSA submits the following strategies for reducing the tax gap from the perspective of our organization:

1. Provide support for fundamental tax reform, additional resources to the IRS for enforcement and seek support for withholding and information reporting by using our contacts with members of Congress and their staffs. Fundamental tax reform with few or no tax preferences has the potential to reduce the tax gap by many billions of dollars. Providing IRS with more enforcement tools, particularly withholding and information reporting, will help IRS deal with the largest contributor to the tax gap, underreported income.
2. Remind our members (who are not employees of the government) of the tax gap and their roll to educate their clients when observing areas of noncompliance in our highly visible cash economy. For many small businesses the incentives to pay wages in cash – avoiding payroll taxes and workers' compensation insurance – are very powerful. Those small businesses who issue W-2's are consistently underbid by those who pay in cash.
3. Provide a tax-talk list by which our members can seek assistance from other members to increase their level of competency.
4. Increase coordination with our state affiliates to maintain and improve mechanisms to ensure that our members provide appropriate tax advice. Through contacts with our state affiliates we learn about recent developments in tax practice locally and hear directly from our members about taxpayer concerns.