

The Tax Gap

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What is the Tax Gap?

The difference between the amount of tax that taxpayers *should* pay for a given year and the amount that *is* paid voluntarily and timely.



How big is the Tax Gap?

- **Total = \$345 billion (Tax Year 2001)**
 - **Nonfiling = \$27 billion**
 - **Underpayments = \$33 billion**
 - **Underreporting = \$285 billion**
- **Net tax gap = \$290 billion**



How was the Tax Gap measured?

National Research Program

- **Replaced measurement using 15-year old data**
- **46,000 individual returns from Tax year 2001**
- **Examinations concluded in 2004**
- **Study of results continues**



What is being underreported ?

- **Unreported small business income and self-employment tax = \$148 billion**
 - **Unreported income**
 - **Over-reported expenses**
- **43 percent of total tax gap**



What is being underreported?

Problem areas

- **Gross receipts**
- **Cost of Goods Sold**
- **Car & truck expenses**
- **Depreciation**
- **Supplies**
- **Travel, meals & entertainment**
- **Rent or lease expenses**
- **Telephone, postage, bank fees, dues, contract labor**

Significance of the Tax Gap

- **Less income to Treasury = greater deficits**
- **Increased burden on compliant taxpayers**
- **Unfair to competitors who pay their share**



What is the IRS doing?

- **Better information reporting and matching to detect noncompliance**
- **Revamped audit selection formulas**
- **Increasing enforcement actions for those who won't comply**
- **Educating taxpayers on their obligations**



Tax Gap outreach

- **Help small business and self-employed taxpayers:**
 - **Determine and report gross income**
 - **Determine and report allowable business expenses**
 - **Understand filing, paying and recordkeeping requirements**



Tax Gap outreach

Areas of emphasis:

- 1. Reporting gross income (June '06)**
- 2. Cost of goods sold (July '06)**
- 3. Third-party reporting requirements (August '06)**
- 4. Home office deduction**
- 5. Schedule C "other expenses"**



Tax Gap outreach

Areas of emphasis:

- 6. Car & truck expenses**
- 7. Depreciation**
- 8. Supplies**
- 9. Travel, meals & entertainment**
- 10. Rent & lease expenses**



How can you help?

- Spread the word to members & colleagues
- Bookmark the IRS.gov newsroom (<http://www.irs.gov/newsroom/index.html>) and check it regularly
- Search IRS.gov for “Tax Gap”
- Continue to provide suggestions and feedback through your local Stakeholder Liaisons



Questions?

