

U.S. sees red over back taxes

By Richard Wolf, USA TODAY

WASHINGTON — The Bush administration and members of Congress have their eyes on a potential pot of money that could virtually wipe out the government's budget deficit: unpaid taxes.

The effort to target delinquent taxpayers follows a report from the Internal Revenue Service that roughly \$345 billion, or more than 16% of all taxes owed, initially went unpaid in 2001. The IRS eventually collected \$55 billion of that, leaving a "tax gap" of \$290 billion.

Based on the 15% increase in tax revenue since then, this year's gap could be \$400 billion or more. That's more than the Congressional Budget Office's \$360 billion estimate for the 2006 budget deficit.

"It just leaps out at you as one of the most significant opportunities we have," says Sen. Kent Conrad of North Dakota, the top Democrat on the Senate Budget Committee.

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Taxpayers have been underpaying the government for decades. Some are corporations or wealthy individuals who use illegal tax shelters. Others are individuals with business income, including the self-employed, who underreported that income by 57% in 2001, the IRS says. Many are taxpayers just confused by the tax code.

Nina Olson, the IRS' national taxpayer advocate, says average taxpayers pay a "surtax" of more than \$2,000 a year to subsidize those who don't pay. "When honest taxpayers feel like chumps, some of them start fudging, too," she says.

The Bush administration and Congress agree that only a modest increase in tax collections is possible without burdensome requirements. That's because the biggest increase in unpaid taxes is in the unmonitored "cash economy."

President Bush wants a 2% increase in IRS enforcement funds next year. The IRS says every dollar spent going after tax cheaters brings in about \$4 in revenue.

Key members of Congress want to go further. Senate Budget Committee Chairman Judd Gregg, R-N.H., has raised the possibility of doubling the president's proposed increase. Senate Finance Committee Chairman Chuck Grassley, R-Iowa, has proposed reining in taxpayers who exaggerate the value of charitable deductions.

But doing all that, says IRS Commissioner Mark Everson, would net only an additional \$50 billion to \$100 billion a year. Getting more, he says, would require a government too intrusive for Americans to stomach: "At some point, you get to a tradeoff between liberties and closing that gap."

How the \$345 billion 'tax gap' breaks down

The Internal Revenue Service estimates that \$345 billion in taxes, or 16.3% of all taxes owed, was not voluntarily paid by taxpayers in 2001. That's roughly the size of the federal budget deficit projected for fiscal year 2007. Components of the tax gap (in billions):

