

United States Senate  
WASHINGTON, DC 20510

August 10, 2021

The Honorable Charles P. Rettig  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, N.W.  
Washington, D.C. 20224

Dear Commissioner Rettig:

I am writing to you regarding the importance of providing the resources the Internal Revenue Service (IRS) needs to go after wealthy tax cheats and provide faster and better service to the majority of Americans who are paying their fair share. In June, amid new reports of abusive tax avoidance by the richest Americans, a bipartisan group of Senators agreed to include \$40 billion in funding for the IRS in a bipartisan infrastructure bill – an important step towards a fairer tax system. But several weeks ago, Senate Republicans reneged on their agreement on IRS funding, caving to corporate lobbyists and ideological extremists who want to keep the IRS from tackling the complex tax evasion schemes of the ultra-rich and the armies of financial advisors, accountants, and lawyers hired to facilitate these schemes. I am requesting further information regarding the benefits of investing in the IRS, and the consequences of inaction.

For too long, the wealthiest Americans have been able to use a raft of accountants, tax strategists, financial advisors, lawyers, and lobbyists to avoid paying their fair share in taxes. The top 1% of Americans fail to report more than a fifth of their income on their tax returns, and they account for more than a third of all unpaid federal income tax.<sup>1</sup> New reporting indicates that they pay far less in taxes on their ever-growing wealth than most middle-class wage-earners.<sup>2</sup> Similarly, giant corporations have an ever-more complex set of schemes that they use to reduce their taxes – with many of American’s largest and most profitable corporations paying nothing in taxes.<sup>3</sup> This kind of tax evasion has created a massive tax gap – the difference between taxes owed and taxes paid.

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<sup>1</sup> National Bureau of Economic Research, “Tax Evasion at the Top of the Income Distribution: Theory and Evidence,” John Guyton, Patrick Langetieg, Daniel Reck, Max Risch, Gabriel Zucman, March 2021, [https://www.nber.org/system/files/working\\_papers/w28542/w28542.pdf](https://www.nber.org/system/files/working_papers/w28542/w28542.pdf).

<sup>2</sup> ProPublica, “The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax,” Jesse Eisinger, Jeff Ernsthausen, and Paul Kiel, June 8, 2021, <https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax>.

<sup>3</sup> Institute on Taxation and Economic Policy, “55 Corporations Paid \$0 in Federal Taxes on 2020 Profits,” Matthew Gardner and Steve Wamhoff, April 2, 2021, <https://itep.org/55-profitable-corporations-zero-corporate-tax/>; Americans for Financial Reform, “Letter to Regulators: Letter to the IRS and Treasury on Tackling Systemic Tax Abuses by the Private Equity Industry, May 12, 2021, <https://ourfinancialsecurity.org/2021/05/letter-to-regulators-letter-to-the-irs-and-treasury-on-tackling-systemic-tax-abuses-by-the-private-equity-industry/>.

On April 13, 2021 in the Senate Finance Committee hearing on the 2021 tax filing season, you stated: “folks on the outside [estimate] that the tax gap is \$7.5 trillion over the next 10 years,” but “the actual tax gap could approach and possibly exceed \$1 trillion per year.”<sup>4</sup> You also acknowledged a report from the IRS’s office of Research, Applied Analytics, and Statistics (RAAS) that estimated that pass-through entities and unreported offshore income of the top 1 percent of taxpayers account for about an additional \$175 billion of the annual tax gap.<sup>5</sup> You testified that a modernized IRS – by catching cheaters and making it less likely that tax evasion schemes succeed – could close the tax gap by more than 20%.<sup>6</sup> The revenues from these policies could be used for programs that benefit millions of Americans: infrastructure, childcare, improved Medicare coverage, and much more.

Part of the reason for the massive tax gap is that more than a decade of politically motivated budget cuts have hampered the IRS’s ability to perform its core duties – especially enforcement focused on the ultra-rich and large corporations. Since 2010, the IRS enforcement budget has declined by more than 20% and the agency has lost one-third of its enforcement personnel.<sup>7</sup> Without the necessary resources, audit rates for the very richest taxpayers, those with incomes over \$10 million, are nearly 80% lower than they were a decade ago, and audits of the largest companies, those with over \$20 billion in assets, declined by nearly 50%.<sup>8</sup>

Another driver of the large tax gap is that the IRS does not have the same information to verify wealthy individuals’ incomes that it does for most Americans, making it easier for the wealthy to evade taxes. Most Americans’ income is already subject to third-party reporting. When a teacher sits down to do her taxes, she relies on a W-2 that tells her exactly how much she earned in wages. Her school sent her this W-2 automatically, and it sent a copy to the IRS as well. This third-party reporting helps the teacher fill out her tax return accurately, and it also helps the IRS do its job and keep everyone honest: taxpayers accurately report to the IRS 95% of income that is already subject to robust third-party reporting by employers and banks.<sup>9</sup>

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<sup>4</sup> Senate Committee on Finance, “The 2021 Filing Season and 21st Century IRS,” April 13, 2021, <https://www.finance.senate.gov/hearings/the-2021-filing-season-and-21st-century-irs>.

<sup>5</sup> Internal Revenue Service, Office of Research, Applied Analytics, and Statistics (RAAS), “A Closer Look: Impacting the Tax Gap,” April 23, 2021, <https://www.irs.gov/pub/foia/ig/cl/tax-gap-for-web.pdf>; Senate Committee on Finance, “The 2021 Filing Season and 21st Century IRS,” April 13, 2021, <https://www.finance.senate.gov/hearings/the-2021-filing-season-and-21st-century-irs>.

<sup>6</sup> Senate Committee on Finance, “The 2021 Filing Season and 21st Century IRS,” April 13, 2021, <https://www.finance.senate.gov/hearings/the-2021-filing-season-and-21st-century-irs>.

<sup>7</sup> Center on Budget and Policy Priorities, “Rebuilding IRS Would Reduce Tax Gap, Help Replenish Depleted Revenue Base,” April 13, 2021 <https://www.cbpp.org/sites/default/files/4-13-21tax.pdf>; Congressional Budget Office, “Trends in the Internal Revenue Service’s Funding and Enforcement,” July 2020, <https://www.cbo.gov/publication/56467>.

<sup>8</sup> Tax Notes, “Shrinking the Tax Gap: A Comprehensive Approach,” Charles O. Rossotti, Natasha Sarin, and Lawrence H. Summers, December 15, 2020, <https://www.taxnotes.com/featured-analysis/shrinking-tax-gap-comprehensive-approach/2020/11/25/2d7ht>; The Washington Post, “As IRS Audits Waned, Big Businesses Racked Up Unapproved Tax Breaks,” Douglas MacMillan and Kevin Schaul, July 14, 2020, <https://www.washingtonpost.com/business/2021/07/14/corporate-tax-break-irs/>.

<sup>9</sup> Internal Revenue Service, “Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013,” September 2019, <https://www.irs.gov/pub/irs-pdf/p1415.pdf>.

But when income is subject to little or no third-party reporting, taxpayers only disclose and pay taxes on 45% of that income.<sup>10</sup> Wealthy tax cheats overwhelming benefit from this information asymmetry, as they are far more likely to have capital gains income that is not subject to third-party reporting that they can hide from the IRS. The lack of third-party reporting for business income also helps corporate tax cheats while harming honest small business owners, who have to compete against tax cheaters and may face audits by an IRS that is not able to draw on third-party reporting to target the biggest corporate tax evaders.

Proposals to increase funding and financial information reporting to the IRS – including the Biden administration’s tax compliance plan and my *Restoring the IRS Act* – will help the IRS go after wealthy tax cheats and raise hundreds of billions or even trillions of dollars.<sup>11</sup> These proposals include sustained, multi-year funding for hiring and training agents dedicated to tackling complex tax evasions schemes of the ultra-wealthy and large corporations, modernizing IT systems, and improving taxpayer services. The proposals also include additional third-party reporting by banks and other financial institutions to help the IRS zero in on wealthy and corporate tax cheats. As Secretary Janet Yellen recently testified to the Senate Finance Committee, this reporting requirement would simply add two boxes to an existing form to track aggregate inflows and outflows from accounts,<sup>12</sup> while imposing no additional burden for taxpayers.

Rebuilding the IRS would have a significant return on investment, raising funds that could be returned to middle class families and invested to grow the economy. The Treasury Department has estimated that its tax compliance proposals would raise \$2.3 trillion in the next two decades.<sup>13</sup> However, Treasury underscores that its estimated return on investment is “conservative” because it does not take into account overhauling and integrating IT systems and improving taxpayer services.<sup>14</sup> Additionally, Treasury notes that its estimates do not include

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<sup>10</sup> *Id.*

<sup>11</sup> U.S. Department of the Treasury, “The American Families Plan Tax Compliance Agenda,” May 2021, <https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>; The Wall Street Journal, “IRS Chief Says \$1 Trillion in Taxes May Go Uncollected Each Year,” John McCormick, April 13, 2021, <https://www.wsj.com/articles/irs-chief-says-1-trillion-in-taxes-may-go-uncollectedeach-year-11618337765>; Washington Center for Equitable Growth, “Tax Evasion at the Top of the U.S. Income Distribution and How To Fight It,” Daniel Reck, Max Risch, and Gabriel Zucman, March 22, 2021, <https://equitablegrowth.org/tax-evasion-at-the-top-of-the-u-s-income-distribution-and-how-to-fight-it/>; Bloomberg Tax, “Make Tax System Fairer, Easier for Taxpayers While Collecting \$1.4 Trillion Owed But Not Paid,” Fred Goldberg and Charles Rossotti, February 17, 2021, <https://news.bloomberglaw.com/daily-tax-report/make-tax-system-fairer-easier-for-taxpayers-while-collecting-1-4-trillion-owed-but-not-paid>; Brookings, “Tax Reform for Progressivity: A Pragmatic Approach,” Natasha Sarin, Lawrence H. Summers, and Joe Kupferberg, January 28, 2020, [https://www.brookings.edu/wp-content/uploads/2020/01/SarinSummers\\_LO\\_FINAL.pdf](https://www.brookings.edu/wp-content/uploads/2020/01/SarinSummers_LO_FINAL.pdf).

<sup>12</sup> Rev, “Janet Yellen Testimony on Economic Recovery, 2020 Budget Transcript,” June 16, 2021, <https://www.rev.com/blog/transcripts/janet-yellen-testimony-on-economic-recovery-2022-budget-transcript>.

<sup>13</sup> U.S. Department of the Treasury, “The American Families Plan Tax Compliance Agenda,” May 2021, <https://home.treasury.gov/system/files/136/The-American-Families-Plan-Tax-Compliance-Agenda.pdf>.

<sup>14</sup> *Id.*

deterrent effects, which are estimated to be triple the size of the direct revenue collection impact.<sup>15</sup>

These proposals have bipartisan support, both from current members of the Senate and from former Republican and Democratic IRS Commissioners and Treasury Department leaders.<sup>16</sup> They also enjoy strong support from the public, with support for infrastructure investments actually increasing when Americans know that they will be funded by the wealthy and big corporations paying their fair share of taxes.<sup>17</sup> That is why IRS funding was included in an initial bipartisan infrastructure agreement between key members of the Senate that was announced on June 24, 2021.<sup>18</sup> But almost immediately, these members came under intense pressure from corporate lobbyists and anti-tax extremists, and ultimately rejected this agreement.<sup>19</sup> As a result, the IRS may be forced to go without the additional funding and the tools it needs to catch tax evaders and tax cheats.

It is now more important than ever that we include investments in the IRS and fair tax enforcement in the budget reconciliation infrastructure package that Congress is developing. But corporate lobbyists and conservative elites who benefit from a weakened IRS will not be content with having removed funding from one bill – they will continue to fight any proposal that could jeopardize their ability to pay zero in taxes. They will continue to claim, falsely, that these

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<sup>15</sup> U.S. Department of the Treasury, “The Budget for Fiscal Year 2017,” <https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/tre.pdf>.

<sup>16</sup> Senator Rob Portman, “At Finance Hearing on the IRS’ Proposed Budget for FY 2020, Portman Questions IRS Commissioner on Modernization and Cryptocurrency,” June 8, 2021, <https://www.portman.senate.gov/newsroom/press-releases/finance-hearing-irs-proposed-budget-fy-2022-portman-questions-irs>; The Washington Post, “Opinion: Five Former IRS Commissioners: Biden’s Proposal Would Create A Fairer Tax System,” Lawrence B. Gibbs, Fred T. Goldberg, Margaret M. Richardson, Charles O. Rossotti, and John Koskinen, May 4, 2021, [https://www.washingtonpost.com/opinions/five-former-irs-commissioners-bidens-proposal-would-create-a-fairer-tax-system/2021/05/04/c4ee8346-acfc-11eb-ab4c-986555a1c511\\_story.html](https://www.washingtonpost.com/opinions/five-former-irs-commissioners-bidens-proposal-would-create-a-fairer-tax-system/2021/05/04/c4ee8346-acfc-11eb-ab4c-986555a1c511_story.html); The New York Times, “We Ran the Treasury Department. This Is How to Fix Tax Evasion,” Timothy F. Geithner, Jacob J. Lew, Henry M. Paulson Jr., Robert E. Rubin, and Lawrence H. Summers, June 9, 2021, <https://www.nytimes.com/2021/06/09/opinion/politics/irs-tax-evasion-geithner-lew-paulson-summers-rubin.html?smid=tw-share>.

<sup>17</sup> Americans For Tax Fairness, “New Poll Shows Overwhelming Support for Biden’s Plans to Raise Taxes on Wealthy and Corporations,” June 10, 2021, <https://americansfortaxfairness.org/issue/new-poll-shows-overwhelming-support-bidens-plans-raise-taxes-wealthy-corporations/>; Americans For Tax Fairness, “Nationwide Online Tax Poll,” May 20, 2021, <https://americansfortaxfairness.org/wp-content/uploads/Toplines-ALG-HART-ATF-Tax-Poll-May-2021-for-release.pdf>.

<sup>18</sup> CNBC, “‘We Have a Deal,’ Biden Says after Meeting with Senate Infrastructure Group,” Jacob Pramuk and Thomas Franck, June 24, 2021, <https://www.cbc.com/2021/06/24/infrastructure-deal-talks-biden-invites-bipartisan-senators-to-white-house.html>.

<sup>19</sup> The Washington Post, “Conservative Groups Mount Opposition to Increase in IRS Budget, Threatening White House Infrastructure Plan,” Jeff Stein, Tony Romm, and Yeganeh Torbati, July 8, 2021, <https://www.washingtonpost.com/business/2021/07/07/irs-taxes-budget-conservatives/>; The New York Times, “For Republicans, Deep Wounds Fuel Resistance to Bolstering the I.R.S.,” Alan Rappeport, July 23, 2021, <https://www.nytimes.com/2021/07/23/us/politics/republicans-infrastructure-irs-tax-gap.html>; New York Magazine, “How the GOP’s Long War on the IRS Threatens the Infrastructure Deal,” July 9, 2021, <https://nymag.com/intelligencer/article/republican-war-irs-threatens-infrastructure-deal.html>; Government Executive, “IRS Funding Surge Punted From Bipartisan Infrastructure Package,” Eric Katz, July 19, 2021, <https://www.govexec.com/workforce/2021/07/irs-funding-surge-punted-bipartisan-infrastructure-package/183873/>.

proposals will somehow harm law-abiding taxpayers, when really their concern is that the IRS will have the tools to combat the complex tax schemes of wealthy and corporate tax cheats.

Thus, it is critical that we understand the facts here about the benefits of restoring the IRS and the costs of inaction. To that end, I ask that you provide answers to the following questions no later than August 24, 2021:

1. What are the IRS' current needs and capacity at the funding levels that are now in place for the agency? Specifically,
  - a. What are current staffing levels for tax compliance, taxpayer services, IT, and other critical staff, and how will these evolve if we continue at current funding levels?
  - b. What are current IT system needs, and will these needs be met at current funding levels?
  - c. What are current audit rates for the wealthiest taxpayers? What will happen to these audit rates in future years if there are no changes in IRS funding?
  - d. What are current audit rates for large corporations? What will happen to these audit rates in future years if there are no changes in IRS funding?
  - e. How does the IRS measure customer service needs and the agency's ability to meet these needs? What will happen to these measures in future years if there are no changes in IRS funding?
  - f. What is your best estimate of the tax gap? If there are no funding changes in future years, what will happen to the size of the tax gap?
  
2. How will proposed increases in funding help close the tax gap and improve IRS customer service? Specifically,
  - a. How will increased funding help the IRS hire more tax compliance, taxpayer services, IT, and other critical staff?
  - b. How will increased funding help the IRS meet IT system needs, and how will this benefit taxpayers?
  - c. How will increased funding affect audit rates for the wealthiest taxpayers?
  - d. How will increased funding affect audit rates for large corporations?
  - e. How will increased funding help the IRS more effectively audit wealthy taxpayers with income hidden in offshore accounts?
  - f. How will increased funding help the IRS improve customer service? In what ways will taxpayers benefit from these improvements?
  - g. How will increased funding help IRS close the tax gap and ensure that the wealthy pay their fair share? How much could the tax gap be closed with the proposed increase in funding?
  
3. How will proposed information reporting requirements for financial institutions help close the tax gap and target audits towards noncompliant taxpayers and away from compliant taxpayers? Specifically,

- a. How will the additional information help the IRS enhance its enforcement activities with respect to tax evasion by the wealthy and large corporations?
- b. How will the information reporting requirements interact with increased IRS funding, including for staffing and IT systems, to build more capable and targeted enforcement efforts with respect to tax evasion by the wealthy and large corporations?
- c. How will the additional information impact compliant taxpayers, including individuals and small businesses?
- d. How has the reporting proposal been planned and developed in order to make sure that it is fair and reasonable in how it impacts financial institutions?

Thank you for your consideration of these important matters, and I look forward to your response.


Sincerely,



Elizabeth Warren  
United States Senator



Sheldon Whitehouse  
United States Senator



Bernard Sanders  
United States Senator