TAX COMPLIANCE

Challenges to Corporate Tax Enforcement and Options to Improve Securities Basis Reporting

What GAO Found

The corporate income tax is an important source of federal revenue and must be considered in dealing with the nation’s long-term fiscal imbalance. Reexamining both federal spending and revenues, including corporate tax policy, corporate tax expenditures and corporate tax enforcement must be part of a multi-pronged approach to address the imbalance.

Corporate Income Tax Revenues as a Share of Federal Taxes, 1962-2005

The total amount of corporate tax avoidance, which includes the $32 billion in noncompliance estimated by IRS, is unknown. A complex tax code, complex business transactions, and often multinational corporate structures make determining corporate tax liabilities and the extent of corporate tax avoidance a challenge. Opportunities exist to improve corporate tax compliance and include simplifying the tax code, obtaining better data on noncompliance, continuing to oversee the effectiveness of IRS enforcement, leveraging technology, and sending sound compliance signals through increased collections of taxes owed.

In a companion report issued today, GAO found that many taxpayers misreport capital gains or losses, sometimes inappropriately underpaying their taxes and sometimes overpaying them. IRS has efforts in place to help ensure proper reporting of capital gains and losses, but these efforts face several obstacles. GAO found that expanding third-party information reporting on the cost basis of capital assets could help mitigate this problem if related problems are addressed. GAO suggested that Congress consider requiring brokers to report adjusted basis to taxpayers and IRS and requiring IRS to work with the securities industry to develop cost-effective ways to mitigate reporting challenges. GAO also recommended that IRS clarify its guidance on reporting capital gains and losses.