

GAO Highlights

Highlights of [GAO-18-39](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

The tax gap—the difference between tax amounts that taxpayers should have paid and what they actually paid—has been a persistent problem for decades. The tax gap estimate is an aggregate estimate of the five types of taxes that IRS administers—individual income, corporation income, employment, estate, and excise taxes. For each tax type, IRS attempts to estimate the tax gap based on three types of noncompliance: (1) underreporting of tax liabilities on timely filed tax returns; (2) underpayment of taxes due from timely filed returns; and (3) nonfiling, when a taxpayer fails to file a required tax return altogether or on time.

GAO was asked to review IRS's tax gap estimate for tax years 2008 to 2010. This report provides information on (1) the main drivers of the tax gap; (2) IRS's confidence in the tax gap estimates; (3) IRS's goals, if any, for reducing the tax gap; and (4) the extent to which IRS uses tax gap estimates and underlying data to develop strategies to reduce the tax gap. GAO reviewed IRS tax gap data and reports and interviewed IRS officials.

What GAO Recommends

GAO recommends that IRS re-establish goals for improving voluntary compliance and develop and document a strategy that outlines how it will use its data to update compliance strategies to address the tax gap. IRS disagreed with GAO's recommendation on establishing goals and agreed with the recommendation on compliance strategies. GAO continues to believe that goals are essential for results-oriented management.

View [GAO-18-39](#). For more information, contact James R. McTigue, Jr. at (202) 512-9110 or McTiguej@gao.gov.

October 2017

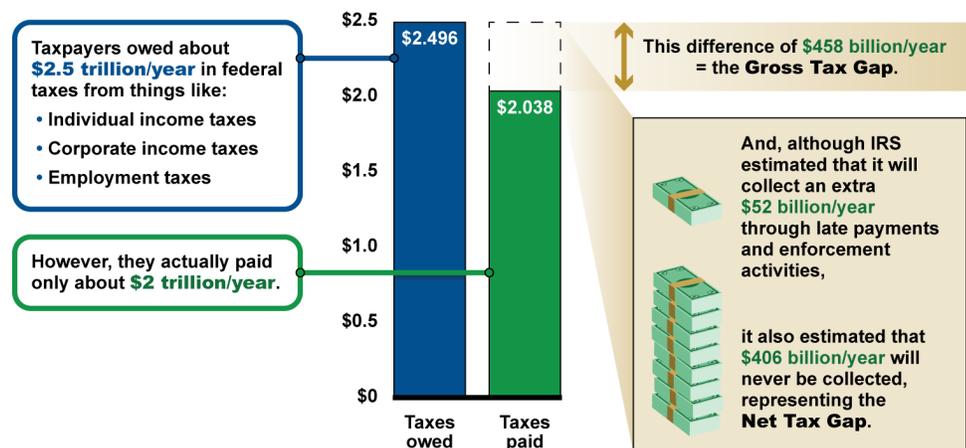
TAX GAP

IRS Needs Specific Goals and Strategies for Improving Compliance

What GAO Found

The Internal Revenue Service's (IRS) latest tax gap estimate found that taxpayers voluntarily and timely paid about 81.7 percent of the taxes they should have paid for tax years 2008-2010.

IRS's Annual Average Tax Gap Estimate for Tax Years 2008-2010
Dollars (in trillions)



Source: Internal Revenue Service (IRS). | GAO-18-39

As with past estimates, underreporting of individual income taxes accounted for the largest portion of the 2008-2010 tax gap. IRS believes the tax gap estimates are sufficiently reliable to provide a snapshot of tax compliance as a whole because much of the estimates are based on the most current data available, such as from IRS's National Research Program (NRP).

IRS previously set or acknowledged goals to improve voluntary compliance. However, IRS has since moved away from that approach. IRS officials now believe there are limited benefits to establishing goals because IRS cannot control all aspects of compliance and updated methodologies may cause fluctuations in the estimates. IRS does, however, have an impact on taxpayers' compliance through its service and enforcement programs. Without long-term, quantitative goals for improving voluntary compliance, it will be difficult for IRS to determine the success of its compliance efforts and adjust its approaches.

The Internal Revenue Manual states IRS needs to measure taxpayer compliance and other factors so compliance information and tools can be improved. IRS uses tax gap data to study compliance behaviors and update computer formulas designed to identify tax returns with a high likelihood of noncompliance. Yet IRS has not documented a comprehensive strategy that shows how it intends to use NRP data to update compliance strategies. Officials said the uses of NRP are widely known from general documentation about NRP. Without developing and documenting a strategy for using the NRP data to update compliance strategies, IRS may not fully leverage the compliance data or allocate enforcement resources in the most cost-effective manner, and it may be difficult for Congress and others to understand the merits of what they are being asked to fund.