



TaxNewsFlash

United States



No. 2021-187
April 28, 2021

Treasury proposals for tax administration reforms

The U.S. Treasury Department today issued a release proposing increased IRS funding and improved tax compliance including, in part, by addressing the “tax gap.”

According to the [Treasury release](#),

- Noncompliance is concentrated at the top of income distribution levels with the top 1% of taxpayers failing to report 20% of their income and failing to pay nearly \$175 billion in taxes owed annually.
- The tax gap has many underlying causes, “chief among them being insufficient resources,” and Treasury observed that the IRS lacks the capacity to address sophisticated tax evasion efforts and that audit rates for taxpayers making over \$1 million in income have fallen by almost 80% over the past decade.
- Treasury is proposing a “robust and sustained investment” in the IRS and to provide resources for investigations into underreported income and to pursue high-income taxpayers who evade their tax liability through complex schemes.

According to Treasury, these considerations provide the basis for a series of proposals in the Biden Administration’s American Families Plan to overhaul tax administration and to provide the IRS with the resources and information it needs to address tax evasion that would, in turn, generate an additional \$700 billion in tax revenue over the course of a decade, net of the investments made.

Specifically, the tax administration reforms would:

- Provide the IRS the resources it needs to stop sophisticated tax evasion
- Provide the IRS with more complete information
- Overhaul outdated technology to help the IRS identify tax evasion
- Improve taxpayer service and deliver tax credits
- Regulate paid tax preparers

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