

## DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE

WASHINGTON, DC 20224

The Honorable Richard E. Neal Chairman Committee on Ways and Means U.S. House of Representatives Washington, DC 20515

Dear Chairman Neal:

I am writing you regarding the Administration's proposal to provide the Internal Revenue Service (IRS) with additional 3<sup>rd</sup> party information that would help reduce the tax gap. Our enforcement efforts serve taxpayers generally, the vast majority of whom want to comply with their tax obligations, by legitimizing that choice and giving them comfort that we support them and will aggressively enforce the laws against those who do not pay their fair share. In this regard, our enforcement efforts support compliant taxpayers and a fair and equitable tax system.

We respect and proudly serve *all* taxpayers. We must operate from their perspective, through their eyes, in their communities, enhancing their experiences while striving to provide clear, meaningful guidance and services, in the language of their choice, wherever possible. In support of compliant taxpayers, we must aggressively pursue non-compliant taxpayers by maintaining robust and visible civil and criminal enforcement efforts. We remain committed to ensuring that the tax system is enforced fairly; that taxpayers receive the nature and quality of services they deserve; and that high-income evaders (who cost the federal government hundreds of billions of dollars in unpaid taxes annually)—including high wealth individuals, large corporations and those aggressively utilizing complex multi-tiered partnerships—do not feel safe cheating on their taxes.

We see 3<sup>rd</sup> party information reporting as providing both a service to compliant taxpayers through accurate and reliable reports that match what the IRS receives and improving fairness as compliance increases and better-informed enforcement actions are possible. Importantly, improved information reporting could result in decreasing audits of compliant taxpayers, saving those taxpayers time and money and increasing efficiency for the IRS.

The reason is simple: the more transparent a taxable event is to the IRS, the more likely the event is to be accurately reported and proper taxes are to be paid. This is in large

part because whenever the IRS implements new information reporting requirements, voluntary compliance rises. For example, there is a high level of compliance for wage earners who have taxes withheld from their paychecks (approximately 98%) and a low rate of compliance where there is not meaningful information reporting (approximately 45%).

The combination of additional 3<sup>rd</sup> party information reporting for cryptocurrency transactions and account inflows and outflows from financial institutions would provide insight on areas where the IRS does not have information today. This additional information will improve our ability to effectively administer the tax code leading to higher rates of compliance—especially those whose sources of income are not currently subject to information reporting. Given the IRS's past experience with information reporting, this is an effective means of increasing the compliance rate.

When the IRS has introduced new technology-enabled compliance programs using multiple sources of income, we have seen tangible and measurable improvement to tax compliance. For example, the IRS began developing the Return Review Program in 2010. The program's purpose is to detect and stop identity theft and other fraudulent activity in individual return filings. Between 2015 and 2019, the number of taxpayers reporting that they were identity theft victims fell 79% from 677,000 in 2015 to 137,000 in 2019. Between 2015 and 2019, the IRS protected a combined \$26 billion in fraudulent refunds by stopping confirmed identity theft returns.

Critical to the success of any new information reporting regimes is providing budget support for the IRS to acquire the tools necessary to use the information effectively. These tools include modernized systems intaking, storing, and analyzing data we have and may receive to identify potential cases for examination leading to improved enforcement outcomes, and hiring additional experts to improve our ability to best use these tools. Modernization of our systems coupled with receipt of meaningful information reporting will continue to enhance services to compliant taxpayers and make tax avoidance by others more visible and more difficult.

Reducing the Tax Gap and improving compliance is a central part of the IRS mission. There's no single solution to closing the tax gap. Achieving a meaningful reduction in the tax gap requires a comprehensive, multi-faceted strategy, effectively executed coupled with accountability to taxpayers. Investment in our service, enforcement, and technology efforts is integral to this effort. So too is giving the IRS information on sources of income not currently subject to information reporting. This will improve the efficiency of enforcement efforts, allowing the IRS to focus its audit scrutiny on noncompliant taxpayers while reducing the burden on compliant taxpayers and increasing their confidence the tax system. I hope this information is helpful. If you have questions, please contact me, or a member of your staff may contact Amy Klonsky, Chief, National Congressional Affairs Branch, at 202-317-6985.

Sincerely,

Charles P. Rettig