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# Economic Policy Institute

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DOWNLOAD NEW PAPERS: [Do-It-Yourself Tax Cuts](#) and [Tax Cheats and their Enablers](#)

## BUDGET BURDEN FROM UNPAID TAXES TOPS \$300 BILLION System's failure rewards cheating, undermines taxpayers' "honor system"

Inadequate enforcement of tax laws is sabotaging the federal government's ability to pay for programs and rewarding those who game the system, according to a new report released today by the Economic Policy Institute.

**"Do-It-Yourself Tax Cuts: The Crisis in U.S. Tax Enforcement,"** by EPI economist Max Sawicky, is one of two papers released at a news forum held at the National Press Club today to examine the enforcement crisis plaguing the nation's tax collection system and to explore solutions.

The panel of experts at today's forum included: **Donald C. Alexander**, Partner, Akin, Gump, Strauss, Hauer and Feld; former Commissioner, Internal Revenue Service (Nixon Administration); **Sheldon S. Cohen**, Senior Counsel, Morgan Lewis; former Commissioner, Internal Revenue Service (Johnson Administration); **Eric Toder**, Senior Fellow, Urban Institute; former director, Office of Research, Internal Revenue Service; **Henry J. Aaron**, Senior Fellow, Economic Studies, the Bruce and Virginia MacLaury Chair, the Brookings Institution; **Reuven S. Avi-Yonah**, Irwin I. Cohn Professor of Law, University of Michigan; and **Robert S. McIntyre**, Director, Citizens for Tax Justice.

Sawicky's [report](#) gives an overview of tax evasion, which now encompasses about 15 percent of all taxes owed to the government – or about one dollar of every six owed in individual and corporate taxes. Collecting the unpaid taxes would, Sawicky notes, eliminate most of the federal budget deficits that are now projected over the next decade.

The system, Sawicky says, has become distorted by perverse incentives that reward individuals and corporations for not paying their taxes in full and on time. Even those who are sued by the IRS can come out ahead, since cases may be settled for less than the actual tax obligation.

Sawicky notes that most of the unpaid taxes – at least \$250 billion of the total – results from taxpayers either underreporting income or claiming too many deductions. About \$30 billion of the unpaid total is because of non-filing, and another \$32 billion results from underpayment.

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*The Economic Policy Institute is an independent, nonprofit, nonpartisan research institute – or "think tank" – based in Washington, D.C. EPI researches the impact of economic trends and policies on working people in the United States and around the world.*

Underreporting of individual income accounts for \$150 to \$187 billion in unpaid taxes, while another \$30 billion is from underreported corporate income, \$66 to \$71 billion from payroll taxes, and \$4 billion from estate and excise taxes.

The fact that so many can flout the rules with impunity, Sawicky notes, is especially damaging to an enforcement system that relies heavily on the honor system to spur voluntary compliance.

“The tax enforcement system has become so dysfunctional that it is now its own worst enemy,” Sawicky said. “While most taxpayers are honest and struggle through the forest of forms to meet their tax obligations, a sizeable percentage of others are, in effect, dealing themselves a do-it-yourself tax cut. The snowball effect of tax cheating, if unchecked, undercuts voluntary compliance and creates an atmosphere in which cheating becomes accepted as the ‘smart’ thing to do.”

Fixing the problem, according to Sawicky and other forum participants will require funding an increase in IRS enforcement efforts. And, as Sawicky’s paper details, relatively small expenditures are likely to capture much larger amounts in tax revenues. A procedure as simple as sending a letter to taxpayers who have not filed a return, for example, yields over \$12,000 for every dollar spent.

Robert McIntyre presented the second new paper released today, a look at the use and abuse of tax shelters as mechanisms for evading tax liability. His report, [“Tax Cheats and their Enablers,”](#) exposes the tactics of the greedy and unscrupulous who have increasingly blurred the line between legal tax avoidance and illegal tax evasion.

McIntyre faults unscrupulous tax advisers, major accounting firms, banks, and law firms that make billions helping tax dodgers avoid paying their taxes.

He notes that, in the absence of meaningful enforcement of the fine line between legal and illegal activity, the system is rewarding firms that aid and abet their clients’ tax evasion, while making it harder for honest firms that refuse to cross the legal line to continue to attract clients.

McIntyre levels his harshest criticism at Congress, however: “But most of all, the blame lies with demagogic lawmakers in Washington, who have turned a blind eye to tax evasion and refuse to give the IRS, the tax police, the resources to stop the abuses.”