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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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February 4, 2016

The Honorable John Koskinen
Commissioner
Internal Revenue Service
1111 Constitution Avenue, NW
Washington, DC 20224

Dear Commissioner Koskinen:

As you know, the Internal Revenue Service (IRS) has most recently estimated the annual “tax gap” at \$385 billion, representing the net shortfall between the amount of taxes paid versus the amount owed. As part of this broader analysis, the IRS estimated the portion of the tax gap attributable to corporations at \$67 billion per year (implying potentially \$700 billion in uncollected revenue over ten years).

The tax gap estimate and related analyses of its causes have been an important tool for lawmakers seeking to identify the techniques and planning strategies of tax cheats and to better ensure all taxpayers pay their fair share. After several recent conversations between my staff and officials at IRS and Treasury, I was surprised to learn that, while IRS tracks the corporate tax gap in total based on the results of audits, the agency indicated it has no mechanism in place to track the specific sources of the corporate tax gap.

As you might imagine, it is disconcerting to me that the IRS, whose core responsibility is the proper collection of tax, has no system in place to identify the sources of corporate tax avoidance, evasion, and noncompliance with any specificity. Without knowing the sources of the problem – such as what could be included in a database of audit issues and results related to each line of the corporate tax return (Form 1120) – it is very difficult for executive branch officials and members of Congress to design policy proposals to reduce the tax gap.

To assist my efforts to identify and eliminate causes of the corporate tax gap, I request that the IRS provide the following information:

1. Please provide a written explanation of the methodology used to estimate the corporate tax gap, including any compliance rate estimates and audit issues identified while compiling this estimate.
2. Does the IRS maintain a centralized repository of corporate audit issues resulting in adjustments? If not, why not and what are the obstacles creating this database? If so, how

frequently is this information updated, how is this information collected, and what IRS divisions have access to this database?

3. Please provide a list of the top corporate audit issues and the most common adjustments made on audit. Please include an estimate of the contribution each of these issues makes toward the corporate tax gap.
4. Please provide a copy of any data or work papers used by the IRS to prepare the corporate tax gap estimate.
5. In 2006, the Treasury Office of Tax Policy released a report titled “A Comprehensive Strategy for Reducing the Tax Gap.” The strategy noted “research is essential to identify sources of noncompliance so that IRS resources can be properly targeted. Regularly updating compliance research ensures that the IRS is aware of vulnerabilities as they emerge.” Please describe any recent steps taken by the IRS to improve its compliance research capabilities.

I would like you to be prepared to offer a preliminary response to these questions at the Senate Finance Committee’s February 10 hearing on the IRS budget. I would also like to receive a letter from IRS responding fully to these five questions, including providing requested documents, within sixty (60) days from the date of this letter.

Sincerely,



Ron Wyden
Ron Wyden
Ranking Member