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Dem plan to help IRS go after unpaid taxes raising GOP concerns

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WASHINGTON — Republicans are attacking a Democratic proposal to raise revenue to pay for the Build Back Better Act's expansion of social programs by hiring more auditors and requiring banks to file new reports to help the IRS hunt for unpaid taxes.

The proposal, one of several tax measures Democrats are considering, would spend \$80 billion over 10 years to hire more Internal Revenue Service auditors and require banks to report annual account gross inflows and outflows exceeding \$600 to identify owed but unpaid taxes.

It would have a big impact on Long Island, said CPA Joe Perry of accounting firm Marcum LLP, because it's home to many businesses that operate as sole proprietorships, partnerships and limited liability corporations, as well as wealthy individuals, whose accounts would be targeted.

In the past few weeks, Senate and House Republican leaders have attacked the idea as an invasion of privacy and banking industry lobbyists have complained the new reporting burden will be a costly expense for financial institutions.

"Democrats want to spend \$80 billion so that federal tax authorities can expand their reach into the financial habits of average Americans, snooping on transactions as small as \$600," Senate Majority Leader Mitch McConnell (R-Ky.) said Oct. 6.

And in a sharp exchange in a Senate Banking Committee hearing two weeks ago, Sen. Cynthia Lummis (R-Wyo.) asked Treasury Secretary Janet Yellen: "Do you distrust the American people so much that you need to know when they bought a couch or a cow?"

Yellen answered that Lummis was misinformed.

"This is not a proposal to provide detailed transaction-level data by banks to the IRS," she said. "It is a proposal to add two additional pieces of easily ascertained information on to the 1099-INT form that banks already file, namely the aggregate inflows into the account during the year and the aggregate outflows."

Yellen added, "I think it's important to recognize that we have a tax gap that's estimated at \$7 trillion over the next decade. That is, taxes that are due and are not being paid to the government that deprive us of the resources we need to do critical investments."

The IRS now collects information from employers about workers' pay and it requires banks to report interest on savings and other accounts, but it doesn't get independent data to verify income reported by the self-employed, the sole proprietor and the wealthy.

The idea is that the proposed bank-reported information about how much flows in and out of bank, investment and loan accounts — both personal and business — would allow the IRS to develop algorithms to determine which returns to audit.

Yellen said the IRS set the threshold at \$600 to prevent those wishing to evade taxes from setting up multiple accounts. But House Speaker Nancy Pelosi (D-Calif.) said lawmakers have discussed setting it at higher level — some say as much as \$10,000.

And the target of the proposal is to ensure that the highest-earners — the top 1% — pay the taxes they owe, because that group was responsible for more than \$160 billion each year in unpaid taxes, according to a post by Treasury Deputy Assistant Secretary Natasha Sarin.

The bottom line is to cut into that large tax gap of \$7 trillion over a decade.

The IRS has been hindered from reducing the tax gap by a shrinking IRS budget, a shortage of auditors, outdated technology, far fewer audits and a decline in owed taxes being paid, said Janet Holtzblatt, a senior fellow at the Urban-Brookings Tax Policy Center, a Washington think tank.

The IRS budget in constant dollars has been cut by 23% since 2010, she said. And after a seven-year hiring freeze and the inability to replace experienced retiring workers, staffing has shrunk by 20%, with the biggest drop in auditors assigned the most difficult cases.

As a result, the percentage of all audited tax returns has been cut by half, she said.

"If you look at the two areas that [the IRS is] talking about increasing audits — one is on the wealthy and the other is on big businesses — you really see the severity of the cutbacks," Holtzblatt told Newsday.

The percentage of IRS audits of tax returns filed by people with more than \$1 million in gross income dropped from 8.4% to 2.4%, she said. And the proportion of audits of filings by corporations with \$20 billion or more in assets sank from nearly all of them to just about half.

The IRS estimates the \$80 billion hiring spree would net about \$240 billion over 10 years, and the bank reporting of the aggregate inflow and outflow of funds would reap about \$460 billion over 10 years — or a total of about \$700 billion.

The American Bankers Association has mounted a campaign against the proposal, telling its members to urge their customers to send a note to lawmakers.

"The proposal, if enacted, would require banks to report to the IRS detailed information on customer account inflows and outflows," the association said in its sample message. "These new reporting requirements raise serious questions about Americans' right to privacy and will raise the cost of tax preparation for individuals and small businesses."

But many Republican lawmakers and bankers suggest that the proposal would require reporting of every transaction once the \$600 level is reached.

That's what Rep. Andrew Garbarino (R-Bayport), who has signed a Republican letter opposing the proposal, said he heard in discussions with local bankers.

"They'll be collecting information from everyone when their goal is to catch the big tax cheats," Garbarino told Newsday. "Instead of maybe coming up with these rules that in my opinion are going to affect small business owners and even low-income earners, maybe they could clean up the tax code."

The Treasury Department complained that misinformation has marred congressional consideration of the proposal. It does not require individual transactions, but the most basic aggregate information on total account inflows and outflows.

"Overall," Sarin wrote, "the administration's compliance initiatives are guided by a singular objective — bringing about an end to a two-tiered tax system, where ordinary Americans comply with their tax obligations, but many high-end taxpayers do not."