Biden Seeks $80 Billion to Beef Up I.R.S. Audits of High-Earners

nytimes.com/2021/04/27/business/economy/biden-american-families-plan.html

27 avril 2021

WASHINGTON — President Biden, looking to pay for his ambitious economic agenda and shift more of the nation's tax burden to the wealthy, will propose giving the Internal Revenue Service an extra $80 billion and more authority over the next 10 years to help crack down on tax evasion by high-earners and large corporations.

The additional money and enforcement power will accompany new disclosure requirements for people who own businesses that are not organized as corporations — like many law firms and real estate partnerships — and for other high-earners who could be hiding income from the government. Mr. Biden's goal is to raise hundreds of billions of dollars to pay for child care, education and other programs while making it harder for high-earning Americans to evade or avoid taxes.

If the president is successful, individuals who earn more than $400,000 a year would face a higher likelihood of a tax audit, regardless of how much income they report on their tax forms, a person familiar with the plan said.

Empowering the I.R.S. is one of several proposals that Mr. Biden will unveil when he addresses a joint session of Congress on Wednesday. His administration will portray that effort — coupled with new taxes it is proposing on corporations and the rich — as a way to level the tax playing field between typical American workers and very high-earners who employ sophisticated efforts to minimize or avoid taxation.

The $80 billion, parceled out over 10 years, would be a nearly 70 percent increase over the agency's entire funding levels for the past decade. The administration estimates that that financial lift could net an additional $700 billion in tax revenue over the next decade. Mr. Biden plans to use money raised by the effort to help pay for the cost of his "American Families Plan," which he will detail to lawmakers on Wednesday.

That plan, which follows his $2.3 trillion infrastructure package, is expected to cost at least $1.5 trillion and will include universal prekindergarten, a federal paid leave program, efforts to make child care more affordable, free community college for all and tax credits meant to fight poverty.

To help pay for that spending, the administration also wants raise the top marginal income tax rate for wealthy Americans to 39.6 percent from 37 percent and increase capital gains tax rates for those who earn more than $1 million a year. Mr. Biden will also seek to raise the tax rate on income that people earning more than $1 million per year receive through stock dividends, according to a person familiar with the proposal.

Still, the administration believes its efforts to invest heavily in a tax-collecting agency that has steadily lost personnel and remains partly stuck in 1960s-era information technology will raise more revenue than any individual tax increases by making it harder for high-earners to hide income not earned from wages. While the tax code has grown more complex over the past decade, the agency's budget and staffing has not kept pace.

Democrats on Capitol Hill have spent years pushing for more I.R.S. funding. Yet some conservatives say additional enforcement spending could quickly draw a political backlash, particularly from high-earning small-business owners who could become more frequent targets of audits.

Republicans criticized the agency repeatedly in the Obama administration for targeting conservative political groups, including several affiliated with the Tea Party, for tax scrutiny. A federal watchdog concluded in 2017 that I.R.S. officials had also targeted liberal groups, not just conservative ones, in questioning their claims of tax-exempt status.

Many economists and tax experts welcomed the proposal, which they said would help reverse years of declining enforcement actions against companies and the rich at the agency.

"The plan is good news for honest filers and businesses, the budget, and the rule of law," said Chye-Ching Huang, the executive director of the Tax Law Center at N.Y.U. Law. "Stopping tax cheats from having an unfair advantage helps honest businesses to compete and thrive."

Previous administrations have long talked about trying to crack down on tax evasion. This month, the head of the I.R.S., Charles Rettig, told a Senate committee that the agency lacked the resources to catch tax cheats, including those who hide income from cryptocurrencies, costing the government as much as $1 trillion a year.

The erosion of resources at the I.R.S. was detailed in a Congressional Budget Office report last year that examined the agency's work from 2010 to 2018. During that time, the I.R.S.'s annual budget declined by 20 percent and its staff declined by 22 percent. Funding for enforcement activities fell by nearly a third.

With less money and staff, the I.R.S. was forced to become more lax at enforcing tax laws. Examinations of individual tax returns fell by 46 percent and audits of corporate tax filings fell by 37 percent, according to the Congressional Budget Office.

The top 1 percent of earners have become far less likely to be audited in recent years. That is because they are far more likely than low- or middle-income Americans to earn money from businesses, capital gains and other sources of income that are not wages. Research suggests nearly all wage income is reported correctly to the agency. Capital and business income are far more likely to be underreported.

Mr. Biden aims to change that. His economic team includes a University of Pennsylvania economist, Natasha Sarin, whose research with the Harvard University economist Lawrence H. Summers suggests that the United States could raise as much as $1.1 trillion over a decade via increased tax enforcement.

Mr. Summers praised Mr. Biden's approach. "Deterioration in I.R.S. enforcement effort and information gathering is scandalous," he said. "The Biden plan would make the American tax system fairer, more efficient and, I'm confident, raise more revenue than official scorekeepers now forecast — likely a trillion over 10 years."

Mr. Biden's efforts would incorporate some of Ms. Sarin and Mr. Summers's suggestions, including investing heavily in information technology improvements to help the agency better target its audits of high-earners and companies.

Image

Mr. Biden's plan, which he will outline in an address to Congress on Wednesday, will include universal prekindergarten.Credit...James Estrin/The New York Times

They would also provide a dedicated funding stream to the agency to enable officials to steadily ramp up their enforcement practices without fear of budget cuts, and to signal to potential tax evaders that the agency's efforts will not be soon diminished.

Mr. Biden would also add new requirements for people who own so-called pass-through corporations or hold their wealth in opaque structures, reminiscent of a program established under President Barack Obama that helps the agency better track possible tax evasion by Americans with overseas holdings.

- **A new year, a new budget:** The 2022 fiscal year for the federal government begins on October 1, and President Biden has revealed what he'd like to spend, starting then. But any spending requires approval from both chambers of Congress.
- **Ambitious total spending:** President Biden would like the federal government to spend $6 trillion in the 2022 fiscal year, and for total spending to rise to $8.2 trillion by 2031. That would take the United States to its highest sustained levels of federal spending since World War II, while running deficits above $1.3 trillion through the next decade.
- **Infrastructure plan:** The budget outlines the president's desired first year of investment in his American Jobs Plan, which seeks to fund improvements to roads, bridges, public transit and more with a total of $2.3 billion over eight years.
- **Families plan:** The budget also addresses the other major spending proposal Biden has already rolled out, his American Families Plan, aimed at bolstering the United States' social safety net by expanding access to education, reducing the cost of child care and supporting women in the work force.
- **Mandatory programs:** As usual, mandatory spending on programs like Social Security, Medicaid and Medicare make up a significant portion of the proposed budget. They are growing as America's population ages.
- **Discretionary spending:** Funding for the individual budgets of the agencies and programs under the executive branch would reach around $1.5 trillion in 2022, a 16 percent increase from the previous budget.
- **How Biden would pay for it:** The president would largely fund his agenda by raising taxes on corporations and high earners, which would begin to shrink budget deficits in the 2030s. Administration officials have said tax increases would fully offset the jobs and families plans over the course of 15 years, which the budget request backs up. In the meantime, the budget deficit would remain above $1.3 trillion each year.

Fred T. Goldberg Jr., an I.R.S. commissioner under President George H.W. Bush, called Mr. Biden's plan "transformative" for combining those efforts.

"Information reporting, coupled with restoring enforcement efforts, is key to improve in compliance," Mr. Goldberg said in an email. "Audits alone will never do the trick."

He added: "None of this happens overnight. A decade of stable funding is necessary to recruit and train talent and build on the necessary technology — not only for compliance purposes but to meet the quality of services that the vast majority compliant taxpayers expect and deserve."

Some conservative tax activists oppose any additional spending at the agency. Grover Norquist, the president of Americans for Tax Reform, a group that opposes all tax increases, said in an interview that additional enforcement dollars risk increasing the number of politically motivated audits while burdening small-business owners, with no guarantee of a large increase in revenues.

“Nothing says these guys are going to raise money,” he said. “The I.R.S. has been highly politicized for a long time. They’ve done nothing to fix it.”

Tax experts tend to agree that increasing enforcement capacity of the I.R.S. will more than pay for itself, but it is not clear how much is really needed at a time when many of the agency’s functions can be automated and more tax returns are filed electronically.

The Congressional Budget Office estimated last year that an additional $40 billion of funding over 10 years would increase government revenues by $103 billion. Administration officials are confident the actual amount is much higher.

Supporters of beefing up I.R.S. enforcement point to the billions of dollars the agency has been able to recover even with limited resources, saying that amount could grow exponentially with adequate funding.

Last October, the I.R.S. helped nab a Houston technology executive, Robert T. Brockman, in what was billed by prosecutors as the largest tax evasion case in American history. Mr. Brockman was accused of hiding $2 billion in income from the I.R.S. through a web of entities and secret foreign bank accounts over 20 years.

This month, the I.R.S. announced that the California-based executive Michael Todd Lucas, who controlled several software development businesses, was not fully paying employment taxes even though he was withholding them from his workers. The I.R.S. said that Mr. Lucas, who pleaded guilty to tax fraud, failed to pay nearly $5 million in payroll taxes, penalties and interest.

Still, John Koskinen, who served as I.R.S. commissioner under Presidents Barack Obama and Donald J. Trump, said that he thought the $80 billion being proposed by the Biden administration might be too much. The suggestion was surprising coming from someone who lamented loudly that the agency was being starved when he was in charge.

“I’m not sure you’d be able to efficiently use that much money,” Mr. Koskinen said in an interview. “That’s a lot of money.”

Mr. Koskinen said he thought an extra $25 billion over a decade would help bring the I.R.S. budget back to where it was around 2010, allowing it to hire enforcement agents who have been lost to attrition and revamp the agency’s customer service abilities.