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BOB DOLE
KANSAS

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, DC 20510

October 23, 1985

TO: SENATOR DOLE

FROM: GEORGE PIELER

SUBJECT: TALK TO IRS JOINT CONFERENCE -

*IRS. Auditorium
12th St. Between Const. Ave
& PENN.*

You are scheduled to talk to the Joint Conference at 8:00 a.m. on Thursday, October 24, at the Auditorium on the 7th floor of the IRS building.

The group consists of IRS District Directors, Service Center Directors, Regional Commissioners and some Chief Counsels. They would like your views of the prognosis for tax reform and for significant action to reduce the budget deficit.

Attached are talking points on the role of the Service as it relates to tax reform and the emphasis in recent years on improving taxpayer compliance.

As you may recall Commissioner Egger would like the Senate to move in the direction of the House position on IRS funding in the conference on Treasury appropriations (more funds for pay, additional personnel, and administrative costs).

IRS JOINT CONFERENCE

TAXPAYER COMPLIANCE AND TAX REFORM EFFORTS

- o Taxpayer compliance has become more and more of a concern for the legislative branch in recent years. We in Congress are, I hope, beginning to understand better the problems the Internal Revenue Service faces day in and day out. We do want to make your job easier: but we also expect you to understand that taxes and how they are collected are also a major political concern, and that Congress also has an obligation to respond to citizen concerns about the role and the operations of the Service. So in the interest of making progress towards closing the compliance gap and increasing the equity of the tax system, we have to ask you to bear with us as we try to deal with these conflicting pressures.

- o It is easy to see why Congress has focused more on compliance problems in recent tax legislation. The heat is on with regard to all aspects of Federal fiscal policy, from poorly-targeted spending programs to cost overruns to tax shelters. When we are losing a very substantial pool of revenues--some \$80 billion to \$100 billion per year by most estimates, although some would put it higher--it is hard to overlook improved taxpayer compliance as a means of closing the budget gap.

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- o As you know, there have been some major successes in the compliance area. The tip reporting rules are one example; so are the information reporting improvements generally, the stronger penalties in a number of areas, and the revised rules on tax shelters approved in 1982 and 1984. Progress is being made, and we hope that the Service will be able to make effective use of these new tools in the years ahead.

- o But even though we are more acutely aware of compliance problems than we used to be, and more determined to do something about them, it would be foolish to say that we have all the answers, or that compliance problems can be solved once and for all by appropriate technical solutions--be they legal, technological, or manpower-related. The fact remains that the tax legislative process is a political process--and not everything Congress has done lately can fairly be described as 'simplification'. In all honestly we have to acknowledge that a lot of what Congress does makes the job of tax-collecting more complicated. There are a lot of reasons why this is so, but overall it is a consequence of trying to do equity: of starting with tax rules of broad applicability, then modifying them in narrow, specific ways in order to deal with 'hard cases' that come to our attention.

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- o The proliferation over the years of this kind of thing is one of the factors that has made the tax code more complex, and no doubt has something to do with the campaign for major tax reform or simplification. Since overhauling our tax system is a critical issue that appears to be here to stay--particularly since the President is determined to keep the issue alive--let me conclude with just a few comments on tax reform.

- o Everyone wants to improve the tax code, and I know your jobs would be made much easier if we had simpler rules of general applicability that all taxpayers could understand without having to hire a lawyer or accountant. But nothing is quite as easy as that. If we really intend to make far-reaching changes, it is vital that we build a consensus for them--or else the new system would begin to unravel right away. So the first thing we have to recognize is that it may not be possible to jump into a new system all at once. The experience of the Ways and Means Committee shows this--they are trying to proceed gradually, identifying areas of agreement as they go along.

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- o We still aren't sure how people really feel about the trade-offs they would face under a lower-rate, broader-based tax. Do they want to forego their favorite deductions and credits in return for a lower rate? Or are they really more concerned about the bottom line: the size of their tax payment?

- o In a system of voluntary compliance such as our popular consensus is crucial. If we cannot be confident that a major tax overhaul will make an improvement that will last, and if we cannot demonstrate that taxpayers will give stronger support to the new system than to the old, it may not be wise to charge ahead. But we should at least be able to agree on some basic principles of tax reform, set a goal to be attained over the next several years, and take some initial steps toward that goal. Then we will have a better idea if the momentum for tax reform will carry through. But that momentum, which began with the rate reductions, depreciation changes, and base-broadening measures of the last four years, will not vanish soon. We owe it to our citizens to take their concerns about the equity of the tax system seriously--and to respond to the best of our ability, both in legislating and in administering the changes that come forth.