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## The Biggest Tax Cheats

by Robert Kuttner

How can we possibly reduce the federal deficit and find enough money for high-quality public services without raising everyone's taxes?

Actually, there's a remarkably easy solution. The government just needs to get serious about collecting money from tax cheats. And this doesn't mean audits of ordinary taxpayers or mom-and-pop businesses -- that's not where the big cheating is.

Much of it is in the form of very complex tax shelters, deliberately designed to make the tax evasion techniques so complicated that auditors have trouble figuring out what's legal and what isn't. Much of the rest happens overseas, where affiliates of US corporations arrange to book their profits in tax havens with which the United States has no enforcement treaty.

The Internal Revenue Service recently released a report estimating that taxes owed but not collected in 2001 (the last year studied) ranged from \$312 billion to \$353 billion. That didn't even count much of the tax evasion by US firms offshore.

Yesterday, the [Economic Policy Institute](#) (on whose board I serve) pulled together a group of tax experts, including former IRS commissioners Donald Alexander and Sheldon Cohen, to make the case for better tax enforcement. "If you see someone breaking into your neighbor's house, you call the police," said Cohen.

The IRS as good guys is, of course, a very hard sell politically. "Abolish the IRS" has become a leading applause line on the Republican right. But the more tax evasion is winked at, the more honest taxpayers are called on to make up the difference.

Vito Tanzi, a tax expert who used to work for the International Monetary Fund, estimates that the owners of \$7 trillion in assets that might otherwise be taxable do not report income on those assets to any nation, and others have placed the figure as high as \$11.5 trillion. According to Robert McIntyre of Citizens for Tax Justice, this translates to about \$255 billion a year in taxes owed, mostly to major industrial nations, but not paid. Economist Max Sawicki, in a new paper written for the Economic Policy Institute, calculates that the gap between adjusted gross income reported to the IRS and the number calculated by the Commerce Department is about \$900 billion a year.

Last fall, Citizens for Tax Justice examined federal taxes paid by 275 of America's largest corporations. On average, they paid a rate of 17.3 percent -- lower than the rate paid by nearly everyone who is reading this column.

The statutory corporate rate is 35 percent. The fact that the taxes actually paid were less than half that amount reflects a blend of special-interest laws, shelters, and outright tax-cheating. As McIntyre observes, in the 1950s, US corporations paid 4.8 percent of the gross domestic product in taxes. By 2004 that had fallen to 1.6 percent.

In recent years, the likelihood of a high-income individual, corporation, or partnership being audited has drastically declined. The IRS enforcement budget is down almost one-third since the mid-1990s. Even as Congress has larded up the tax code with new, complex shelters and special-interest provisions that invite abuse, it has limited the IRS budget to the point where

taxpayer assistance offices are closing and the hands of the IRS are tied when it comes to in policing tax cheats.

Recently The New York Times reported on a Bush administration plan that would give the government access to hundreds of millions of international banking transactions in an effort to track money-laundering by terrorists. Ironically, the same administration, in its first weeks in office, sidetracked an agreement negotiated by the Clinton administration that would have produced greater tax collaboration among nations. The agreement would have required the reporting of financial transactions with nations used as tax havens.

But this sort of international enforcement is strenuously resisted by America's blue chip trade associations, corporate lobbyists, and their political allies. "This is a crime wave," says McIntyre, "facilitated by the most prestigious accounting firms and law firms, with ordinary taxpayers footing the bill."

The Bush administration is willing to invade privacy when the purpose is thwarting terrorists but abets criminals when the purpose is corporate tax evasion. As the folk song "Pretty Boy Floyd" put it, "Some will rob you with a six-gun, some with a fountain pen."

***Robert Kuttner is co-editor of [The American Prospect](#). His column appears regularly in the Globe.***