



**Treasury Inspector  
General for Tax  
Administration**

**Inspections and Evaluations**

## Highlights

Highlights of Report Number: 2009-IE-R001 to the Internal Revenue Service Commissioner.

### WHY TIGTA DID THIS STUDY

This project was initiated to evaluate the accuracy and reliability of estimates of the size of the U.S. international tax gap, determine whether the IRS is planning to develop its own measurement, and identify the efforts to reduce the international tax gap.

### WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report.

### IMPACT ON TAXPAYERS

The international tax gap is defined as taxes owed—but not collected on time—from a United States person or foreign person whose cross-border transactions are subject to U.S. taxation. Some non-IRS estimates place the international tax gap at \$100 billion or more annually resulting in compliant taxpayers having additional tax burden when noncompliant taxpayers do not pay their legal obligation.

## A COMBINATION OF LEGISLATIVE ACTIONS AND INCREASED IRS CAPABILITY AND CAPACITY ARE REQUIRED TO REDUCE THE MULTI-BILLION DOLLAR U.S. INTERNATIONAL TAX GAP

Issued on January 27, 2009

### WHAT TIGTA FOUND

TIGTA found that the IRS has not developed an accurate and reliable estimate of the international tax gap. Non-IRS estimates of the international tax gap range from \$40 billion to \$123 billion, but are based on educated guesses rather than direct measurement. The IRS estimated that the entire tax gap for Tax Year 2001 was \$345 billion. However, it is doubtful that the IRS' tax gap estimate includes the entire international tax gap because identifying hidden income within international activity is very difficult and time-consuming.

The IRS has no plans to comprehensively measure the international tax gap due to cost, staffing and technical limitations that make direct measurement unfeasible. Consequently, there is less certainty that international tax compliance resources are efficiently allocated to address noncompliance.

Nevertheless, over the past few years the IRS has taken action to better coordinate international tax compliance issues. First in September 2007, the Service-wide Approach to International Tax Administration was announced. Next, the IRS Commissioner announced that international issues are a top priority during his tenure. Finally, additional changes were made by modifying organizational structures, changing processes to facilitate improving compliance, investing in human capital and information technology and increasing cooperation and outreach to foreign governments.

Beyond the IRS, legislation has been introduced to address tax haven abuse. Additionally, the Senate Finance Committee and the Senate's Permanent Subcommittee on Investigations both held hearing in July 2008 advocating more tools for the IRS to combat offshore evasion.

### READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/iereports/2009reports/2009IER001fr.pdf>