# "Reform" of US tax agency has led to decline in audits of the wealthy

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The results of last year's political and media campaign against the Internal Revenue Service (IRS), ostensibly waged to protect the average tax-payer against government abuse, provides an object lesson of the cynicism of American politics.

For weeks on end, beginning in the spring of 1998, Congressional Republicans like Senate Majority Leader Trent Lott and House Majority Leader Dick Armey issued ringing denunciations of the IRS' persecution of small businessmen, farmers and ordinary workers, and demanded legislation to rein in the federal agency. The press and television networks provided almost daily coverage of IRS abuse and uncritically highlighted populist-sounding speeches by politicians who are notorious for their slavish defense of corporate interests.

When pollsters reported growing support for IRS reform, the Clinton administration and the Democratic Party jumped on the bandwagon and backed the Internal Revenue Service Restructuring and Reform Act. The law was passed overwhelmingly by both houses of Congress and signed into law by President Clinton in July 1998.

Some 16 months later, the real motivation behind the “reform” campaign has become clear. The American tax system has been skewed even more to favor the rich at the expense of working and poor people.

According to a recent report in the *New York Times*, since the passage of the law the IRS has sharply reduced audits of wealthy individuals and large corporations. Instead the agency has shifted its focus to investigating low-income families applying for the Earned Income Tax Credit, and cracking down on those, mostly the working poor and unemployed, who fail to file tax returns.

The IRS has reassigned employees trained to audit companies and wealthy individuals to work counters at walk-in centers, answer telephones around the clock and resolve tax disputes of estranged couples. IRS agents, interviewed by the *Times*, said that these changes have had the effect of shifting the target of audits to people who do not have the benefit of professional advisers or political connections.

IRS employees said their managers had pressed them to overlook complex issues and close audits quickly. This has meant virtually dropping any attempt to collect taxes from wealthy violators who conceal income from capital gains, hidden business interests and other sources.

Among individuals with a gross income of $100,000 or more, less than 1 in 150 returns will be audited this year, compared to 1 in 33 in 1992. The percentage of corporate returns to be audited is expected to fall to just above 1 percent for the current fiscal year, as compared to just under 3 percent in 1992. Meanwhile, the number of returns reporting an income of $1 million or more has risen sharply over the past few years, from 87,000 in 1995 to 142,500 in 1997.

An IRS agent in New York told the *Times*, “Please don't call us tax collectors in the newspaper. We don't collect taxes anymore. We aren't allowed to.” Another revenue agent in Nashville, Tennessee said anyone there could get a tax case resolved favorably if the taxpayer had enough influence to get a Senator or Congressman to complain to the IRS.

In April of 1998 the Senate Finance Committee, chaired by Senator William Roth Jr., the principal sponsor of the IRS overhaul legislation, held a widely publicized hearing which portrayed the IRS as an out-of-control agency. The testimony, some of which was later discredited, included horror stories from businessmen who claimed they had been arrested by armed IRS agents, and confessions from former IRS employees who said they had falsified evidence to extract more money from taxpayers.

Clinton and the Democratic leadership reversed their initial opposition and joined the "reform" campaign, with Clinton declaring, "Like most Americans I was outraged by the stories of our citizens harassed and humiliated by what seemed to be an unaccountable, downright tone-deaf agency."

The entire stage-managed affair was given full credence by the media, which reported a groundswell of popular support for reform of, in the words of one newspaper, "the most hated government agency in America."

The IRS is an arm of the capitalist state. It often abuses small businesses and working class families. But the bipartisan campaign to "reform" the IRS, as the results have demonstrated, was not aimed at ending the harassment of working people, but rather at shifting the financial burden for public services and military spending even further onto working-class and middle-class taxpayers.

Included in the 1998 legislation were additional tax breaks for the rich, as well as the establishment of an IRS oversight board that would include corporate executives. While Congress backed off from its original idea of giving the board the power to hire and fire the IRS commissioner, it still retains great influence.

As Robert S. McIntyre of Citizens for Tax Justice pointed out at the time, such a board could decide that the IRS was "devoting too much energy cracking down on corporate tax cheats and should shift its attention to individuals. Or it might push to move tax-enforcement resources away from multinational corporations and toward smaller companies."

The *Times* report shows that this shift in emphasis has already taken place. Moreover, Congress has cut the workforce at the IRS by 14 percent and enacted 1,260 tax code changes since 1997. As a result, the tax agency is expected to audit fewer than 1 in 300 tax returns this year, a decline of 30 percent since 1997 and 70 percent since the early 1980s, according to IRS Commissioner Charles Rossotti.

According to the *Times* report, revenue officers are having difficulty getting supervisors to approve enforcement actions, like foreclosing on property, even on major tax cheats. Two revenue officers outlined cases they had built against individuals who each had illegally withheld millions of dollars in taxes, only to be frustrated by the refusal of their superiors to back them up. "Every badge of fraud was there, but the Criminal Investigation Division told me the US Attorney was not interested," one of the revenue officers said.

Despite the cuts in enforcement personnel the IRS is planning a new crackdown on abuse of the Earned Income Tax Credit, in which low-paid workers can collect up to $323 for single people and up to $3,556 for a family of four.

The results of IRS "reform" underscore the fact that the central preoccupation of both political parties, and all branches of the US government, is to protect the interests of America's wealthiest ten percent, in large part by allowing them to pay less and less in taxes.