

Internal Revenue report: fewer rich Americans are paying taxes

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According to a report issued by the US Internal Revenue Service (IRS), the ranks of rich Americans who pay no taxes are growing. The number of individuals with adjusted incomes greater than \$200,000 who claimed zero tax liability rose to 1,467 in 1998, the most recent year for which complete figures are available. The previous high of 1,253 was reached in 1991.

In recent years the IRS has sharply reduced the number of audits it conducts. Official audits have dropped to .049 percent for individual returns, a 46 percent drop from last year. Corporate audits have fallen as well. Last year the IRS audited 31 percent of the largest corporations, down from 55 percent in 1992.

The drop in the IRS tax audit rate is largely due to the so-called "reform" of the US tax agency carried out during the second term of the Clinton administration. Since 1988 the number of corporate and individual tax returns has increased by 20 percent and the number of returns filed by individuals earning more than \$100,000 has quadrupled. During the same period the staff of the IRS has been cut by about one-third.

There has been a sharp reduction in face-to-face audits of wealthy individuals, widely considered to be the only effective means of detecting complex tax dodges. From an audit rate of nearly 11 percent in the late 1980s, the rate for those earning more than \$100,000 a year has fallen to less than 1 percent. The only group of taxpayers who have seen an actual rise in the number of audits consists of low-income taxpayers making less than \$25,000 per year.

Prosecutions for criminal tax fraud have also dropped. Last year there were just 632 such cases, down from 1,557 in 1987. The number of civil actions against taxpayers who refused to settle their debts to the IRS has dropped from 2,519 in 1991 to just 641 in 1999.

The IRS claims it has made up for the fall in face-to-face audits by the use of computer technology that matches information on individual tax returns to income

documents, such as the W-2 wage reports issued by employers. However, 91 percent of taxpayers earning more than \$100,000 itemize deductions. Most itemized deductions are not verifiable using computer checks.

Face-to-face audits are the only method of checking the validity of such deductions. The one-quarter million such audits actually carried out last year brought in an average of \$9,540 per taxpayer. Document matching only generated an average of \$1,506 per case.

Schemes promoting tax fraud have proliferated, particularly on the Internet. In some cases the authors of illegal tax dodges do not even bother to conceal their identities, posting their names, addresses and phone numbers on the web.

During a Senate Finance Committee hearing last week the head of the IRS, Commissioner Charles Rossotti, said there were hundreds and perhaps thousands of illegal tax scheme promoters. "It's absolutely a big problem," he said, particularly among people with six-figure incomes who pay no taxes or illegally use trusts to reduce their tax liability.

Under an IRS disclosure program, 25 US corporations admitted they had evaded \$4.2 billion in taxes through dubious tax shelters. An IRS official termed this only "the tip of the iceberg." One scheme stopped by the Treasury Department involved a corporation that leased a municipal building in Switzerland and immediately leased it back for the same amount, writing the entire amount off as a tax deduction.

Emboldened by the indulgent attitude of the IRS and spurred on by right-wing anti-tax organizations, a small but growing number of businesses are no longer withholding taxes from employee paychecks. One company, Kristi Tool in Magnolia, Mississippi, has not withheld taxes in more than 20 years. IRS officials said it would probably be several years before any of the businesses that openly refused to withhold taxes were

indicted.

On March 26, the US Justice Department filed a civil suit against Bosset Marketing Partners of Clearwater, Florida to reclaim a refund of \$21,916 in Social Security, Medicare and income taxes. The company filed for a refund of payroll taxes from 1996, claiming its employees were not subject to income tax. The firm's owner openly boasts that he no longer withholds taxes from workers' paychecks.

Not long ago Democrats and Republicans were denouncing the IRS for allegedly harassing taxpayers. Now concerns are being raised in Congress about weak enforcement of tax laws. "I'm concerned the IRS is the dog that doesn't have a bark," recently declared Senate Finance Committee Chairman Chuck Grassley, a Republican from Iowa.

The change in attitude does not reflect a less indulgent posture toward the rich. The Senate hearings on the spread of tax avoidance schemes take place within the context of the Senate's passage of some \$1.2 billion in tax cuts, designed to overwhelmingly benefit the wealthy.

Rather, there are concerns in some ruling-class circles that a collapse in tax enforcement combined with a sharp economic downturn could lead to a rapid fall in government revenue in the coming months. Such an eventuality would call into question the financial projections upon which Bush's tax cut is premised. There are also fears that flagrant tax cheating by the rich will undermine the authority of the state. "The average taxpayer paying his or her share will feel like a chump," declared Democratic Senator Max Baucus, the ranking Democrat on the Senate Finance Committee.

At the same time Baucus suggested that tougher tax enforcement by the IRS could generate sufficient revenues to justify Democratic support for the Bush tax proposal.



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