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White House Leans Toward Tighter Enforcement of Taxes

By **JOHN D. MCKINNON**

President Barack Obama's initiative to raise new tax revenue to pay for major policy changes likely will focus in the short run on tightening enforcement against businesses and wealthy individuals. In the long run, some experts believe it could lead to sweeping changes in the tax code itself.

White House officials disclosed the tax initiative on Tuesday, saying they intend to explore ways to better enforce the current code as well as improve it by eliminating corporate subsidies and untangling its many complexities. Mr. Obama has assigned the task to his President's Economic Recovery Advisory Board, an outside panel of economists and businessmen headed by former Federal Reserve Chairman Paul Volcker.

Administration officials said the group faces two limitations: no tax increases before 2011 and no tax increases on families earning less than \$250,000 a year. The task force is to report its recommendations by Dec. 4.

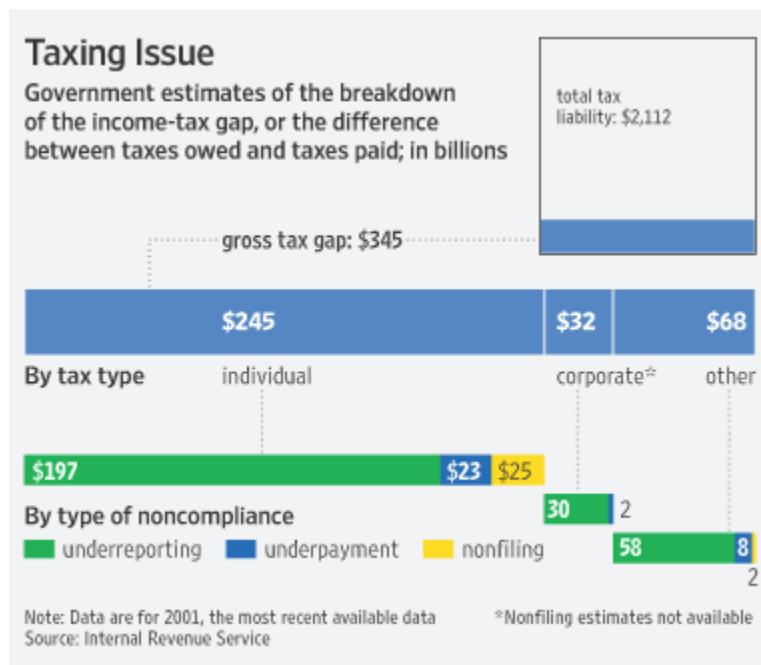
The initiative reflects the Obama administration's re-evaluation of how the U.S. government pays for itself, as lawmakers drop some major proposals from Mr. Obama's budget plans for future years.

A growing number of experts and many lawmakers believe the current U.S. income-tax system isn't raising enough money because it is obsolete. They say the U.S. should consider switching to more efficient means of raising revenue -- for example, taxes on consumption.

"We're shooting ourselves in the foot economically by relying as heavily as we do on income taxes when the rest of the world relies on consumption taxes," said Michael Graetz, a Yale University professor and former Treasury official in President George H.W. Bush's administration. "I think you can tinker with the existing system, but anybody who believes they are going to get enough revenue simply by improving collection of taxes owed is fooling themselves."

The job of the task force isn't to come up with new tax systems "unless it is related to simplification," a senior administration official said Wednesday. "We are about loopholes, simplification, tax gap and corporate welfare." But some top congressional aides said sweeping changes appear to be at least a possibility.

The amount of the annual tax gap -- the difference between taxes owed and taxes paid -- is estimated at more than \$300 billion. That suggests much more can be accomplished through enforcement alone.



But only some of that money -- say, \$100 billion or so -- is regarded as collectible, according to Internal Revenue Service statistics.

And Congress and the IRS already are making quiet progress in improving compliance among investors and small businesses. Under legislation passed over the last couple of years, for example, securities dealers gradually will become responsible for reporting the purchase price of many securities, to improve investors' compliance on capital-gains taxes. And credit-card companies soon will have to report to the IRS sales at small businesses such as restaurants that have been a chronic source of noncompliance.

Still, some experts say the tax system has a significant room to improve -- if lawmakers can muster the political resolve.

"I think there's enough noncompliance that there could be improvements made, if we can get consensus," said Michael Brostek, who handles tax issues for the Government Accountability Office.

The most inviting potential targets are familiar: offshore tax avoidance and evasion by corporations and wealthy individuals. In recent years, the IRS

has made strides in ending abusive offshore tax shelters. But the IRS is just beginning to get access to bank information from many tax-haven countries, so it is hard to measure the progress.

The Obama administration already has announced that it intends to shut down another major source of leakage in U.S. tax revenue -- the generally legal practice by multinationals of parking their overseas earnings in tax-haven accounts that avoid U.S. tax.

Back home, one of the biggest remaining problems is underreporting by small businesses that deal in cash -- as many contractors do. Among the possible further steps: requiring small businesses to use bank accounts, and using the tax code to encourage homeowners to report to the IRS the money they have paid to contractors.

A less-noticed problem is the level of genuine confusion that the complex U.S. tax code generates -- a major source of noncompliance in its own right. As a step toward simplification, Mr. Obama during the campaign proposed relieving millions of workers of the burden of filing income-tax returns, an idea that seems likely to resurface.

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