

**Transcript of Remarks by Senator Kent Conrad (D-ND)
at Senate Budget Committee Hearing on Federal Tax Gap
February 15, 2006**

Opening Statement

I want to thank the Chairman, especially thank him for his kind, generous remarks this morning, but thank him as well for holding this hearing. I very much appreciate it.

I really do believe this is one of the big ideas that we have got to pursue in order to make progress on the deficit.

Let me just run through a couple of things quickly which put it in perspective. We have the President now suggesting the deficit this year will be \$423 billion. My own calculations are that that is somewhat high. I see a deficit this year of about \$360 billion. But, still, that would give us four of the largest deficits we have had in history in dollar terms the last four years.

When we look at revenue as a share of GDP, here is what we have seen going back to 1955. There have been a lot of jigs and jags, but really the revenue side of the equation fell out from 2001 to 2004. We have had some recovery here. But here is the point I want to make.

If the tax gap, the difference between what is owed and what is being paid, is \$350 billion a year or thereabouts, that represents about 2.5 percent of GDP. If we were collecting that, we would have collections as a share of GDP about right here, with no tax increase. No tax increase.

The point I am trying to make to my colleagues is we clearly need more revenue to float this boat. We also have to be tough on spending, without question. We also have to reform long-term entitlements. But we also need more revenue. And the first place to look, rather than any tax increase, is to collect the taxes that are actually now owed. If we were doing that, we would have a very different budget situation.

This is the rough estimate that we have received from the revenue department that the gross tax gap is approaching \$350 billion a year. Hopefully we can get to a newer estimate because I think that is pretty conservative, my own judgment based on how that was arrived at.

Let me just put it in perspective. This is the projected deficit for the year, \$423 billion. Here is the amount of the gross tax gap, \$345 billion. Again, I think this deficit number is somewhat overstated. My own judgment is the deficit will be about \$360 billion this year. If we are actually able to collect all this revenue that is owed, we would come close to eliminating the deficit. And I understand the difficulties with collecting it all. The question is: How can we make serious progress, not just through enforcement but through tax reform? Because I think we have got to now seriously consider fundamental tax reform as part of the mission

That is the point I really want to make, is that this is critically important to solving our budget problems. This is a component of what we could do to really close the gap, and we could

do it without increasing taxes, but increasing the collection of taxes that are now due and owed.

And with that I want to again thank the Chairman very much for holding this hearing.

Additional Comments

I believe it is likely the estimates [of the size of the tax gap] are understated. And I understand how the estimates were made. I don't fault you for how the estimates were made. You are in some sense locked into building off a base that is quite old because as I understand it this update to 2001 is based off a file that is substantially earlier than that. And so with what I have seen happen in the accounting community, in terms of aggressive approaches to tax avoidance, I believe that there is a strong likelihood that the estimates are understated.

....

I have had the opportunity to talk to a number of the big financial firms on Wall Street who have taken a look at this issue. And they have told me they have reviewed the analysis, and had people with great expertise, and they think we may be understating this by \$50 [billion], perhaps even \$100 billion a year.

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I think there is a growing level of information that supports the notion this really is an area that needs to be addressed – that we can make meaningful progress of closing the budget deficit by aggressive approach on the tax gap, the difference between what is owed and what is being paid. At \$350 billion a year, that just cannot be left unattended.