



UNITED STATES SENATE
BUDGET COMMITTEE
RANKING MEMBER CHUCK GRASSLEY

**Prepared Opening Statement by Senator Chuck Grassley of Iowa
Ranking Member, Senate Budget Committee**

**Hearing on “Fairness and Fiscal Responsibility: Cracking Down on Wealthy Tax Cheats”
Wednesday, November 8, 2023**

VIDEO

If someone were to base everything they know about IRS reform from what they hear today, they’d probably get the impression it’s a divisive and politically charged topic.

A few years ago, however, IRS reform had strong bipartisan support.

In June of 2019, the Taxpayer First Act passed the Senate by voice vote on its way to be signed into law by President Trump.

As then Chairman of the Senate Finance Committee, I’m proud to have had a hand in enacting legislation that had improving IRS customer service as its top priority. We accomplished this after continued years of reported abuse by the IRS.

What’s changed since a little over four years ago?

The so-called *Inflation Reduction Act*, jammed through Congress on a party line vote, reversed the course. Democrats abandoned a bipartisan focus on customer service in pursuit of a partisan enforcement first effort.

Don’t get me wrong, when it comes to holding known tax cheats accountable, I take a back seat to no one. In 2006, I authored improvements to the IRS whistleblower program to encourage people with information about high dollar tax fraud to step forward.

That law has collected over \$6 billion and has the potential to collect tens of billions more from identified tax cheats.

Efforts to paint one side of the aisle as friendly to tax avoidance or tax evasion ignores that taxpayers of all types attempt to minimize their tax liability.

Even wealthy President Biden routed income from books and speeches through S corporations to avoid Medicare taxes. The earned income tax credit that mostly benefits lower and middle income taxpayers costs billions of dollars in fraud every year.

The overwhelming emphasis on tax enforcement taken by the Inflation Reduction Act will come at tremendous costs to innocent small business owners and others caught in the IRS’s audit dragnet.

My Democrat colleagues don't seem to care about these costs. They're bewitched by the idea that the law created a magic money machine that will only extract dollars from the wealthy and large corporations. But, their claims that those earning under \$400,000 will be spared are hogwash.

The projected tax gap disproportionately consists of pass-through businesses and sole proprietorships, which invariably puts a target on the backs of small businesses. The IRS has said the \$400,000 threshold will be based on "total positive income" – an extremely broad definition of income that will capture many unsuspecting small business owners. Plus a recent Treasury inspector general report found IRS lacks a unified definition of a high-income taxpayer and has no plans to make one. And, the threshold isn't adjusted for inflation, so more and more taxpayers will get caught up in it every year.

Yet the revenues Democrats are counting on may not pan out.

Even CBO notes in the fine print of their estimates that there's great uncertainty. In a letter to House Republicans last year, CBO says that it estimates the IRS will "use all available productive approaches to increase revenues and raise voluntary compliance from taxpayers with all amounts of income." This is a huge assumption given scandals we read day-to-day.

Less than a month ago an IRS contractor pleaded guilty to stealing the tax information of thousands of taxpayers and President Trump. The IRS doesn't deserve the presumption it's going to do the right thing all the time.

Instead of throwing billions of dollars at IRS enforcement, our constituents would be much better served by a customer service focus.

I have a great deal of confidence in the Taxpayer Advocate position. Both Erin Collins, the current Taxpayer Advocate, and Nina Olsen, who previously held the role, have said customer service should be focused on more than enforcement, and that the best way to close the tax gap is to help taxpayers do the right thing.

The IRA also doesn't include the sort of robust oversight and deliberation that was part of earlier attempts to reform the IRS.

To accomplish this sort of oversight, we should enact the [*IRS Funding Accountability Act*](#) – which I've led along with Senator Thune.

This legislation would put a pause on new enforcement funding until the IRS provides detailed plans for how that money would be spent. Right now, none of us knows how these billions of dollars are being spent by the IRS.

Congress would then have the opportunity to review IRS's spending plans and reject them if not up to snuff.

We all want tax cheats to be held accountable. However, we must first help the majority of taxpayers who want to do the right thing.

Let's resist the siren call of the magic money machine and put taxpayer service first. Let's return to the bipartisanship we had a little over four years ago.

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