Session Five:

Enforcement Strategies

2010 IRS Research Conference

Enforcement Strategies

Discussant: Don McPartland

Large and Mid-Size Business, Internal Revenue Service

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General Comments and Disclaimer

- The three papers were interesting and relevant to IRS and tax administration in general.

- While quite different in topic and approach, each offers insight into the theme of enforcement strategies.

- And, as is true for most good research, they raise as many questions as they answer.

- The comments which follow are the are intended to encourage discussion and additional work in the areas reviewed. They represent my personal opinions and not necessarily the position of the Internal Revenue Service.

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"Collecting Collected Taxes," Keith Fogg

- This paper presents recommendations to improve collection of delinquent "trust fund" accounts:

  - Fix accountability

  - Prevent delinquencies

  - Improve collection of deficiencies, including penalties and interest.

- Questions and suggestions:

  - In fixing accountability, more consideration should be given to cost/benefit issues including the burden to small businesses, and the likelihood of non-compliance by the worst offenders.

  - Public disclosure is one of the key strategies for prevention. What is the rationale: 'shaming' or providing information to customers? If the former, is there evidence that it works? If the latter, is there evidence of demand or likelihood of use?

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"Collecting Collected Taxes," Keith Fogg

- Questions and suggestions:

  - Another proposal for preventing delinquencies involves the use of monetary incentives (reductions in payments) for compliance. Is there data on the results of similar state programs? Is there a way to estimate the cost/benefit to IRS?

  - Several recommendations are made to improve collections including bonding of individuals with a history of non-compliance, denying credit for withheld amounts to those responsible for failing to pay in money represented by those credits, and reordering the way in which payments are credited in "100% penalty cases." While each of the proposals in this section are worth additional study, there are significant policy, legal, and administrative issues with each.

  - Finally, I suggest that this paper, as a whole, could benefit from editing to tighten up the discussion and make the recommendations more succinct.

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"Measuring and Tackling the Illicit Market for Excise Goods," Anthony Rourke

- This paper demonstrates the importance of rigorous data analysis in the development and execution of tax compliance strategies.

- It illustrates the complexities that occur in the process of estimating the illegal (and untaxed) market for cigarettes and liquor:
  - Top-down and bottom-up approaches;
  - Expenditure versus consumption surveys;
  - Consideration of shelf-life, seasonality, forestalling, over-anticipation of demand, etc.

- Questions and suggestions:
  - Figure 6: How is the "Observed" volume determined?
  - Is the information about illicit markets used in resource decisions? How?
  - Is the methodology useful in making tactical enforcement decisions?

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"Optimal Fiscal Policies under Uncertain Detection of Evaders,"
Martin Besfamile and Pablo Olmos

- This paper:

  - investigates how investments to improve the capacity to detect evaders can be incorporated in consideration of optimal fiscal policies.

  - It presents a model that is used to study how the optimal investment interacts with other components of optimal fiscal policy.

  - It suggests that improvements in the investment productivity generate better results than improvements in the initial detection probability.

- Comments and suggestions:

  - This the most technically challenging of today's papers, but one that addresses a topic of critical importance to tax formulation and administration.

  - This paper would be more useful to policy makers and tax officials if the conclusions were augmented by clarifying examples (e.g., what is meant by 'investment productivity.')

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"Optimal Fiscal Policies under Uncertain Detection of Evaders,"
Martin Besfamile and Pablo Olmos

- Questions:

  - Tax legislation is often used to accomplish social policy and income redistribution as well as revenue generation (e.g., Earned Income Tax Credit, which creates opportunity for non-compliance among "poor" taxpayers). Can the model account this? Is it necessary to do so?

  - Investment (such as the IRS CADE project) often anticipate multiple benefits beyond the impact on tax compliance. In fact, compliance may be only a minor consideration in the investment decision. Is it necessary or possible to account for concurrent benefits? Can the model be used to support investment decisions in which compliance is a secondary consideration?

  - I would be interested in knowing to what extent the authors' think tax legislation actually considers optimization of detection/administration.

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Discussant Summary

- We have heard from the authors of three very different papers, reflecting three very different research approaches.

- I enjoyed the opportunity to read and comment on these papers

- It is particularly interesting to see how universal are issues of tax administration—the papers from our colleagues in the Argentina and the UK are entirely relevant to those of us in the United States.

- I look forward to continuing the dialogue that this panel has initiated.

Again – Thank You

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