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Washington Talk

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In early March the Treasury Inspector General for Tax Administration (TIGTA) took a snapshot of how this year's filing season s going. The report was released on March 31. Among the observations:

- 93.9% of returns were filed electronically. Only 4 million returns came in on paper, to that point.
- 53.5 million refunds, totaling more than $160 billion, had been issued.
- More than 2.7 million taxpayers admitted that they had no health insurance in 2015. As a consequence, they paid more than $1 billion in "shared responsibility payments" (or, in the words of Chief Justice Roberts, a "tax").
- 1.4 million returns claimed a total of $4.4 billion Premium Tax Credits for their health insurance.
- 194 tax returns claimed unreasonably large Advance Premium Tax Credits, totaling more than $7.9 billion. Those returns are being investigated.
- 42,148 fraudulent returns were identified, and more than $180 million in fraudulent refunds was blocked.
- 31,578 fraudulent returns involved identity theft.

Recommendations have been slated for a future report.

Democrats on the Ways and Means Committee are supporting H.R. 4996, the "Sensible Estate Tax Act of 2016," introduced by ranking minority member Sander M. Levin (D-Mich). Key elements of the bill include:

- reducing the federal estate tax exempt amount to $3.5 million;
- chopping the federal gift tax lifetime exemption to $1 million;
- capping the Deceased Spouse's Unused Exemption at $1 million;
- boosting the estate tax rate to 45%.

The bill isn't expected to get much traction this year, but could be a preview of coming attractions should the Congress change hands next year.

In February House Speaker Paul Ryan (R-Wisc.) appointed six task forces to study health care reform and ways to make the tax code reward work better. An early report was released April 29. Targets include eliminating the marriage tax penalty and bringing down the corporate tax rate, which is among the highest in the developed world.

Health insurance reform would follow the path established by the American Health Care Reform Act (H.R. 2653), introduced last year by Rep. David P. Roe (R-Tenn.). That bill allows a standard deduction for individually purchased health insurance, and it would modify health savings accounts.

The goal of tax reform would be a top individual tax rate of 25%, coupled with the elimination of special interest "tax expenditures." The IRS would be dissolved, with responsibility for collecting revenue transferred to a new and smaller department at Treasury. The study calls for dynamic scoring of tax proposals and the creation of a tax-free "Universal Savings Account."

Few observers expect action on these proposals during an election year.

To the applause of the nonprofit community, Senate Finance Committee member John Thune (R-S.D.), and Committee ranking minority member Ron Wyden (D-Ore.), in April introduced Charities Helping Americans Regularly Throughout the Year (CHARITY) Act (S. 2750). Important elements of the bill include:

- allowing donor-advised funds to receive charitable IRA distributions;
- simplifying the standard mileage rate for using a personal vehicle for volunteer work;
- replacing the two-tiered excise tax on the net investment income of private foundations with a single 1% rate; and
- expressing the sense of the Senate that promoting charitable giving be a goal of tax reform.

Despite the bipartisan support, no action is expected this year, given the presidential nominating conventions in July, followed by the August recess and the fall campaigning.

For the first time in ten years, the IRS has attempted to measure the "tax gap," the difference between what taxpayers are paying and what they should be paying under the tax law. The gap hasn't changed much over the years, according to information from IRS Commissioner Koskinen at an April press conference. The net tax gap was $385 billion in 2006, and it was $406 billion over the period from 2008 to 2010. Most of the gap is attributed to underreporting for the federal income tax. In 2006 the voluntary compliance rate was estimated by the IRS at 83.1%, and the rate fell to 81.7% four years later.

Koskinen expressed concern that, given the declines in IRS taxpayer services and the reduction in enforcement actions as a result of budget cuts, the gap may be widening. He concluded with a plea for more IRS funding.