The Tax Gap: A Measure of Taxpayer Compliance

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The IRS periodically measures overall compliance of taxpayers with their federal tax obligations. The difference between actual compliance and full compliance is referred to as the "tax gap." The most recent published information is for tax years 2011-2013. In terms of pure dollars, the level of noncompliance may seem to be staggering; when viewed as a percentage of estimated total tax liabilities, it may not seem so bad.

For 2011-2013, the gross tax gap was estimated to be $441 billion per year. Subsequent to their due dates, additional payments were estimated to be $60 billion. These payments were made either voluntarily or through IRS administrative and enforcement efforts. Thus, the net tax gap was estimated to be $381 billion. Based on estimated 100% compliance, the net compliance rate was 85.8% and the tax gap was 14.2%.

To give the dollar amount of the tax gap some perspective, the average net tax gap for 2011-2013 of $381 billion, if eliminated, would have covered 56% of the federal government's $680 billion budget deficit for its fiscal year 2013.

The tax gap is composed of three main components and focuses on five types of taxes. The three components are underreporting, underpayment, and non-filing. Underreporting measures taxpayers' failure to accurately report their full tax liabilities on tax returns; underpayment is the failure to pay all taxes due reflected on filed returns; and non-filing is the failure to file on time or altogether. The five types of taxes measured are individual income tax, corporate income tax, employment taxes (Social Security and federal unemployment insurance), estate tax, and excise tax.

We are inclined to let each reader decide whether to feel better or worse after digesting this information!