



# ***Rodney's Take***

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## **We're a Nation of Tax Scofflaws... or Not**

Last week, the IRS reported that collectively Americans didn't pay \$688 billion on their 2021 tax returns. This includes companies, people who didn't file at all, and those who just didn't send in the check. But the service claims that the people who are the worst about sending in what they owe are those who have a little business on the side, or a side hustle, which is why the IRS is gearing up to go after all of those freeloaders. Hmm.

The methodology notes of the IRS report aren't riveting, but they are instructive. The numbers, which come from the tax gap projections for tax years 2020 and 2021, imply that we paid 83.7% of our voluntary compliance tax (VCR) in 2001, a percentage that grew to 85.0% in 2014-2016, and then eased to 84.9% in 2020-2021, all within the margin of error. The IRS used the same methodology as for previous analyses to arrive at their conclusions. The absolute dollars for VCR grew dramatically not because of greater tax compliance but because GDP expanded. In 2001, VCR accounted for \$345 billion VCR, whereas VCR grew to \$688 billion in 2021. The biggest group not kicking in their fair share isn't greedy corporations but sole proprietorships (also called nonfarm proprietors' income, NFPI), where mom-and-pop businesses mix their personal expenses in with their business expenses.

In 2021, the IRS estimated that NFPI made up 16% of all missing tax, or \$110 billion. In 2016, the service counted more than 25 million sole proprietorships, with 23 million of them reporting less than \$100,000 in

business receipts. How can you capture the biggest source of your missing tax receipts if they are among the smallest taxpayers? What if they use printer ink for some personal and business uses, but then write off the entire purchase? When is the effort not worth it?

I'm not a fan of people cheating on their taxes, and I give the IRS and the SEC wide berth. They are two of the governmental departments that can take your stuff and then make you prove it's yours. But there are better ways to improve voluntary tax compliance, starting with simplifying the tax code. If we want people to follow the law, then it shouldn't be onerous to figure out. From there, we could eliminate deductions that treat some groups more favorably than others, like mortgage interest, and then tackle more-esoteric things, like carried interest. Instead, we'll hire thousands more IRS agents who will spend their time digging through shoe boxes of receipts with little to show for their time.

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*Got a question or comment? You can contact us at [info@hsdent.com](mailto:info@hsdent.com).*