

Tax Administration, Economics & Racism: Why We Can't Have Nice Things

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Tax System Institutional Design

Self-assessment system with taxpayers having the burden of records, preparation, filing, and proof.

Government has burden of legislation and enforcement.

Social Benefits are increasingly delivered through the federal income tax system because these benefits increasingly rely on income as a condition precedent (e.g., welfare to work)

Wealth/Income Inequality

America suffers record inequality not only based upon its own economic history, but relative to other developed countries. As a result of 400 plus years of institutional/systemic/explicit and implicit discrimination against race communities of color, particularly Black, Latinx, and Indigenous individuals, face significant income and wealth inequality in America. The income and wealth gaps cannot be explained by lack of individual responsibility, or lack of family values (e.g., marriage), education, or work, because at every level Black individuals have statistically less wealth than their white counterparts.

Tax System Institutional Racism

Defunding the IRS

Since 2010 (President Obama's first term), Congress has decreased IRS funding. This has resulted in a significant decline in access to social benefits delivered through the tax system and a significant decline in tax enforcement activities. However, tax enforcement activities have not been decreased uniformly. The decrease in IRS enforcement has been more significant for higher income households (who at the highest end of the income continuum (top 10%) are disproportionately responsible for the tax gap (70%)) and less significant for lower-income households who rely on the tax system for social benefits (via refundable and nonrefundable tax credits). Moreover, IRS services (e.g., telephone call access, taxpayer assistance centers) to provide access to these resources has been significantly reduced

Economics of Defunding the IRS

The annual tax gap (difference between what should be paid in taxes and what is actually paid) is significant. Economists and IRS leadership estimate that it is in the \$600 billion to \$1 trillion or more annually. These amounts are staggering but are by far higher than all social benefits combined and double-digit times financial remedies for social deficits in housing, child-care, healthcare for all that suffer. Economists also agree that increased funding of the IRS could target the tax gap and more than pay for the funding many times (estimates range from \$24 to \$72 dollar collected for each \$1 invested).

Reconciling the Irreconcilable

If funding the IRS would provide enough tax revenue to finance remedies for many significant social problems why doesn't Congress do it? Why has Congress moved in the opposite direction of defunding the IRS from this economically logical move? Why is Congress cutting back on tax enforcement of corporations and higher income taxpayers when the demonstrated return on these audits is much more significant than audits of refundable tax credits? Why is the EITC (which accounts for less than 10% of the tax gap) as compared to unreported income (accounts for 33% of the tax gap) the only tax provision categorized as improper payments subject to increased scrutiny/enforcement? Why are poor households of color more likely to be targeted for audit than their white counterparts when more white households receive the EITC than households of color? The answer to these questions when viewed objectively is consistent with other institutional tax structures that support and enhance white wealth (e.g., joint filing, home mortgage interest deduction, tax-exempt retirement savings see Dorothy A. Brown, *The Whiteness of Wealth*) and undermine wealth building for communities of color (*Id.*; Heather McGhee, *The Sum of Us*).