



The Daily Dish

The Tax Gap

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To hear the popular press describe things, every affluent American became so through sheer larceny, including evading their tax obligations willy-nilly. Moreover, the problem has become worse over time. The only hope is the [additional funding](#) allocated to the Internal Revenue Service (IRS) in recent years, which will allow it to compete on a level playing field with the growing scale of tax evasion.

It's great political theater, but the facts on the ground often don't match the rhetoric.

With that in mind, notice that this past week the IRS released its [latest estimate](#) of the "tax gap" - the amount of legally owed taxes that are not paid on time. The highlight?

The projected annual gross tax gap for TY 2022 is \$696 billion. The voluntary compliance rate (VCR) is a ratio measure of relative compliance and is defined as the amount of "tax paid voluntarily and timely" divided by "total true tax," expressed as a percentage. The projected VCR is 85.0 percent.

Is that large? Small? Good? Bad? For perspective, the VCR in 2021 was 84.9 percent, in 2020 was 85.0 percent, between 2017-2019 was 84.9 percent, and between 2014-2016 was 85.0 percent. Put differently, the tax gap was 2.7 percent of gross domestic product (GDP), which is below the [3.3 percent of GDP in 2001](#). There is simply not much evidence of a dramatic trend toward greater tax evasion.

Numerically, the bulk of the gap resides in the individual income tax (\$514 billion), with employment taxes (\$127 billion), the corporation income tax (\$50 billion), and the estate tax (\$5 billion) following. Finally, there are several ways to not pay one's taxes. You can simply not file a return ("nonfiling tax gap"); file but underreport income ("underreporting tax gap"); or simply not pay enough tax ("underpayment tax gap"). There is nothing about the

2022 data that suggests any dramatic shift in any piece of the tax-gap picture.