Who Evades Taxes?
The Distribution of the U.S. Tax Gap

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Overview

Outline

- **Main result: Noncompliance rates highest for low incomes**
  Similar finding in prior estimates, but not for full tax gap:
    Christian 1994, Cay Johnston 2008; Johns and Slemrod 2010;
    DeBacker et al. 2020; Auten & Langetieg 2023; Johns 2023; IRS 2024

- **Estimate the FULL tax gap for 2006-2015**

- **Robust to more high/low-income noncompliance**
    Guyton et al. 2021; Hemel, Holtzblatt, and Rosenthal 2022; GAO 2024

- **2006-15:** Lower incomes less compliant, top 1% more compliant

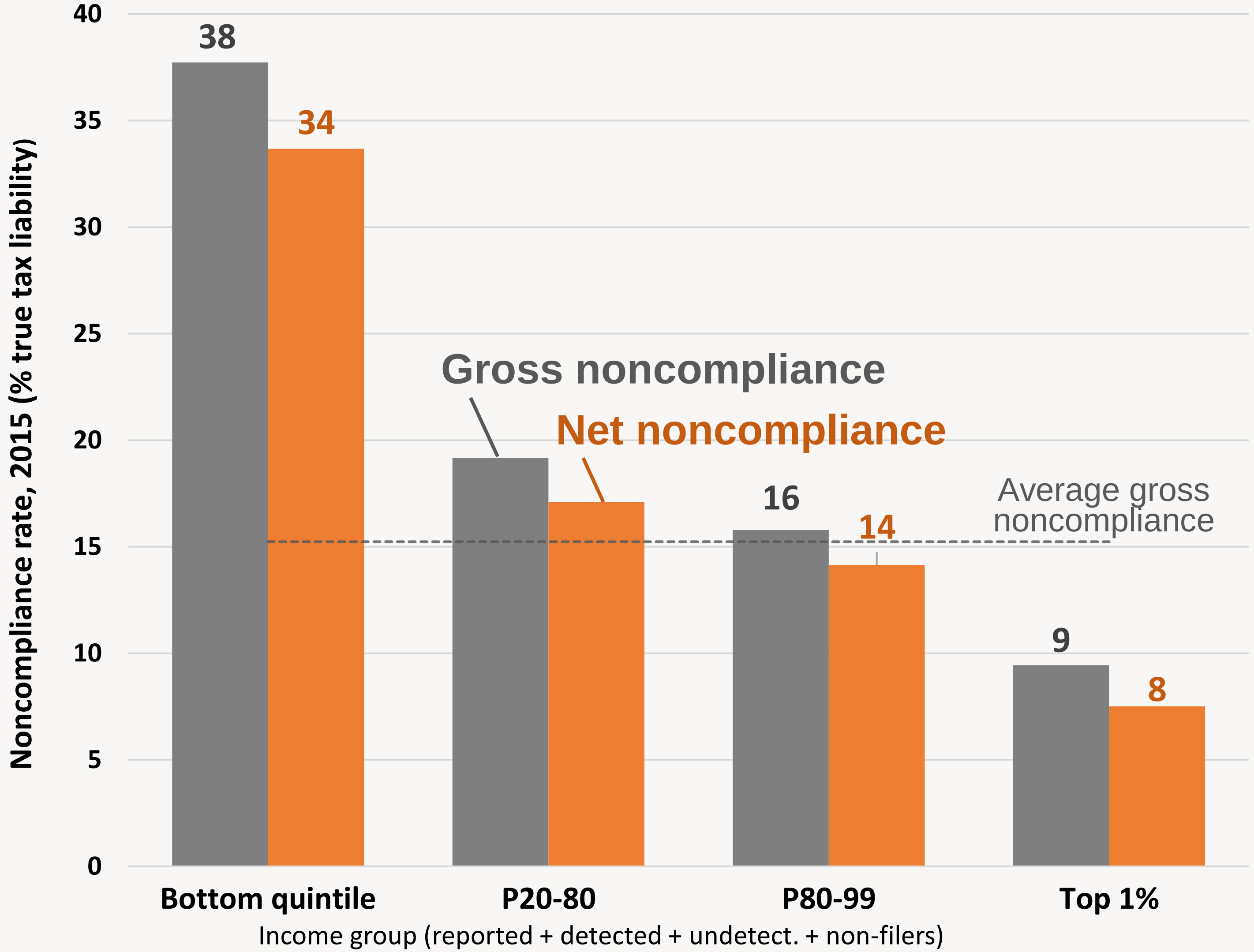
- **Inverse correlation of audit and compliance rates**
    Audit rates fell by half as tax compliance increased

Gross and Net Tax Gap

- **Gross tax gap:** filers, non-filers, corporate, estate, underpayments
- **Net tax gap:** deduct late payments, including from audits

Tax noncompliance rates (%true tax)

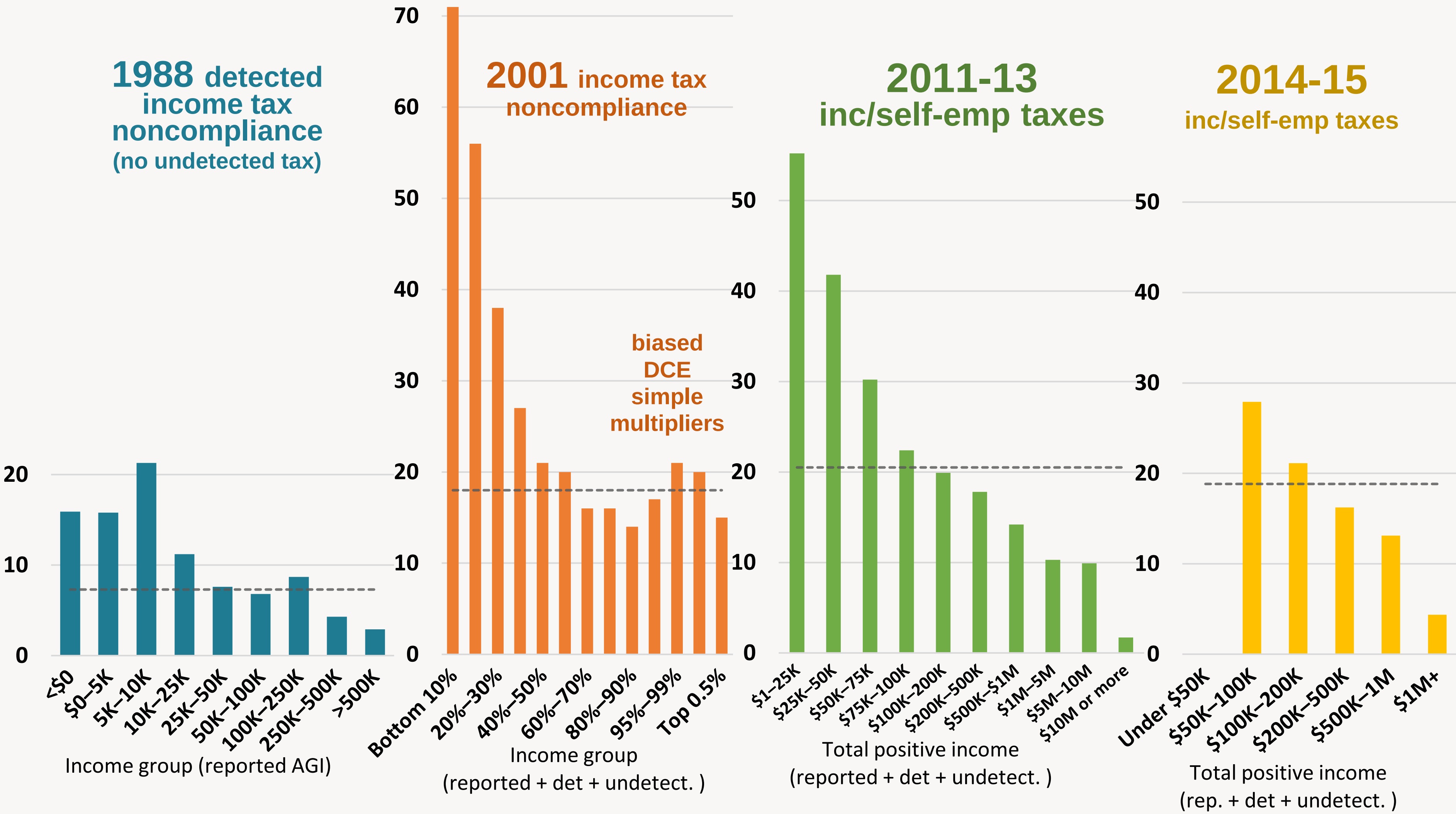
Noncompliance rates higher at lower incomes



Source: Authors' calculations with 2015 NRP.

Similar finding in prior studies (filers only)

Income tax noncompliance rates higher at lower incomes



Sources: Christian (1994), Johns and Slemrod (2010), Johns (2023), IRS (2024), for 2014-15 authors' calculations with NRP.

Operational vs. Random Audits

Operational audits

- **Returns selected based on likelihood of noncompliance**
- **Only select lines of return are audited**

Random audits: Special audit studies

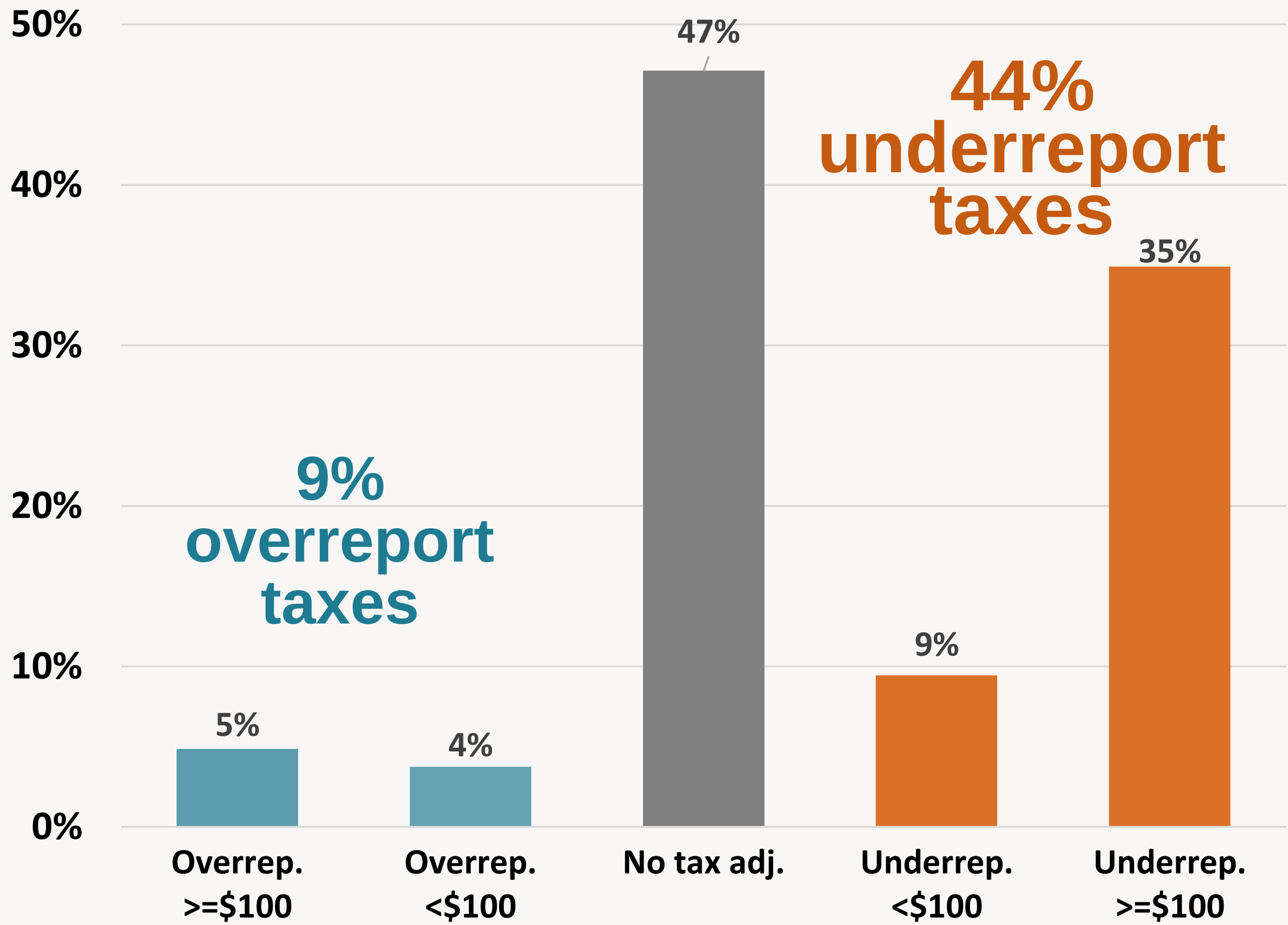
- **National Research Program (NRP):** 14K indiv. tax returns
- **Represents all returns:** oversamples high-income returns
- **More comprehensive audits**
- **Includes all changes by auditor**—from accidental errors, missing documents, and when rules uncertain

Tax Gap is much broader than just evasion

- Evasion is only from willful noncompliance

Detected Tax Adjustments, 2015

Nearly half of tax returns had tax positive adjustments



Source: Authors' calculations with 2015 NRP.

Add undetected underrep. income

Detection Controlled Estimation (DCE)

- Accounts for **undetected** underreported income
- Among similar returns, DCE brings smaller auditor income adjustments up to largest auditor adjustments

2014-15 NRP: Indiv. tax returns only ($billions, IRS 2024)

~$500 detected underrep. income	~$500 undetected income
~$160 detected taxes	~$160 undetected taxes

Undetected Income: DCE multipliers

Old method

Simple multipliers proportionally scaled up detected underreporting

Gave incorrect distributions (IRS has updated its DCE methods)

DeBacker et al. (2020, p. 1106)

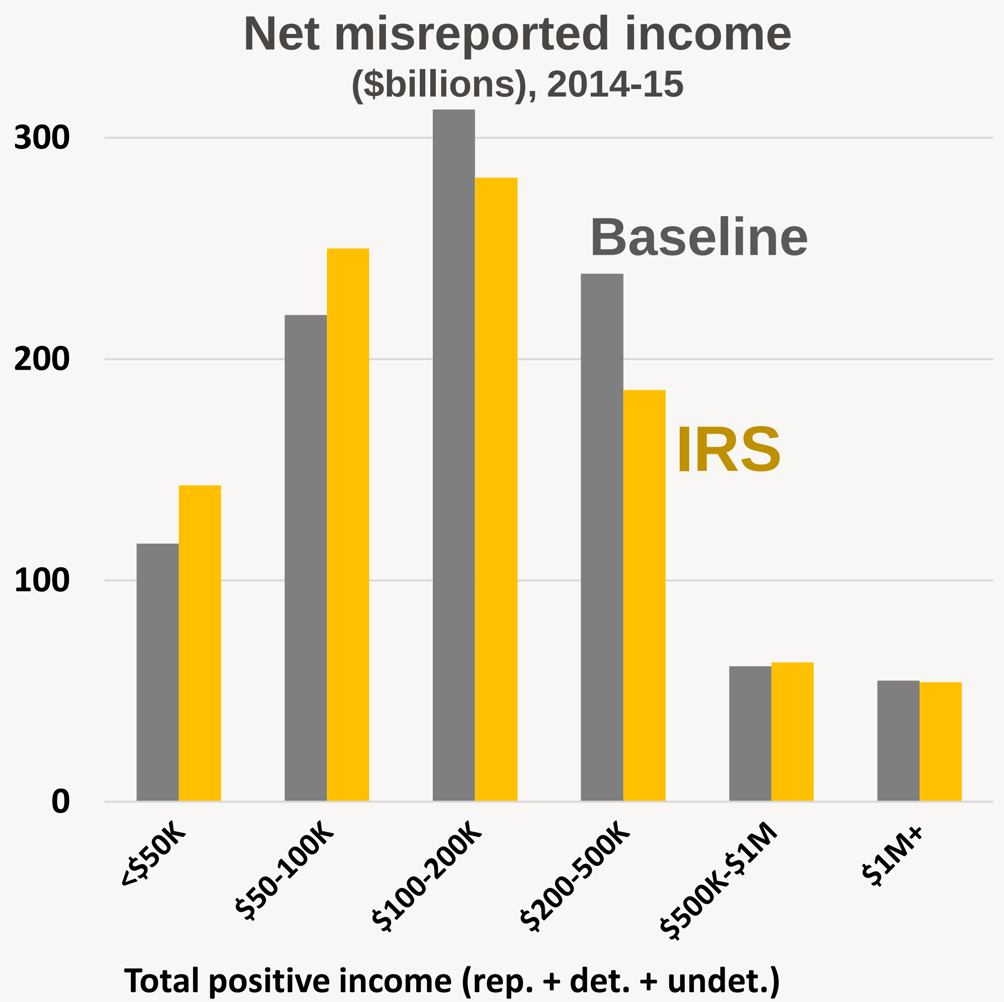
"Published multipliers are applied to all auditors regardless of skill level.…This runs counter to the intended application of the adjustments..."

Multipliers for our estimates

- **Undetected income should account for auditor effectiveness**
- **No access to auditor identities → Start with gradient multipliers**
  from Auten & Splinter (2021)
- **Gradient multipliers proxy auditor ability**
  if less detected underreporting as %reported income → larger multiplier
- **Rescale to target IRS implicit multipliers across ~20 sources** (IRS 2022)
- **This is not the IRS approach, but it approximates the IRS distribution**

Distributions similar to IRS

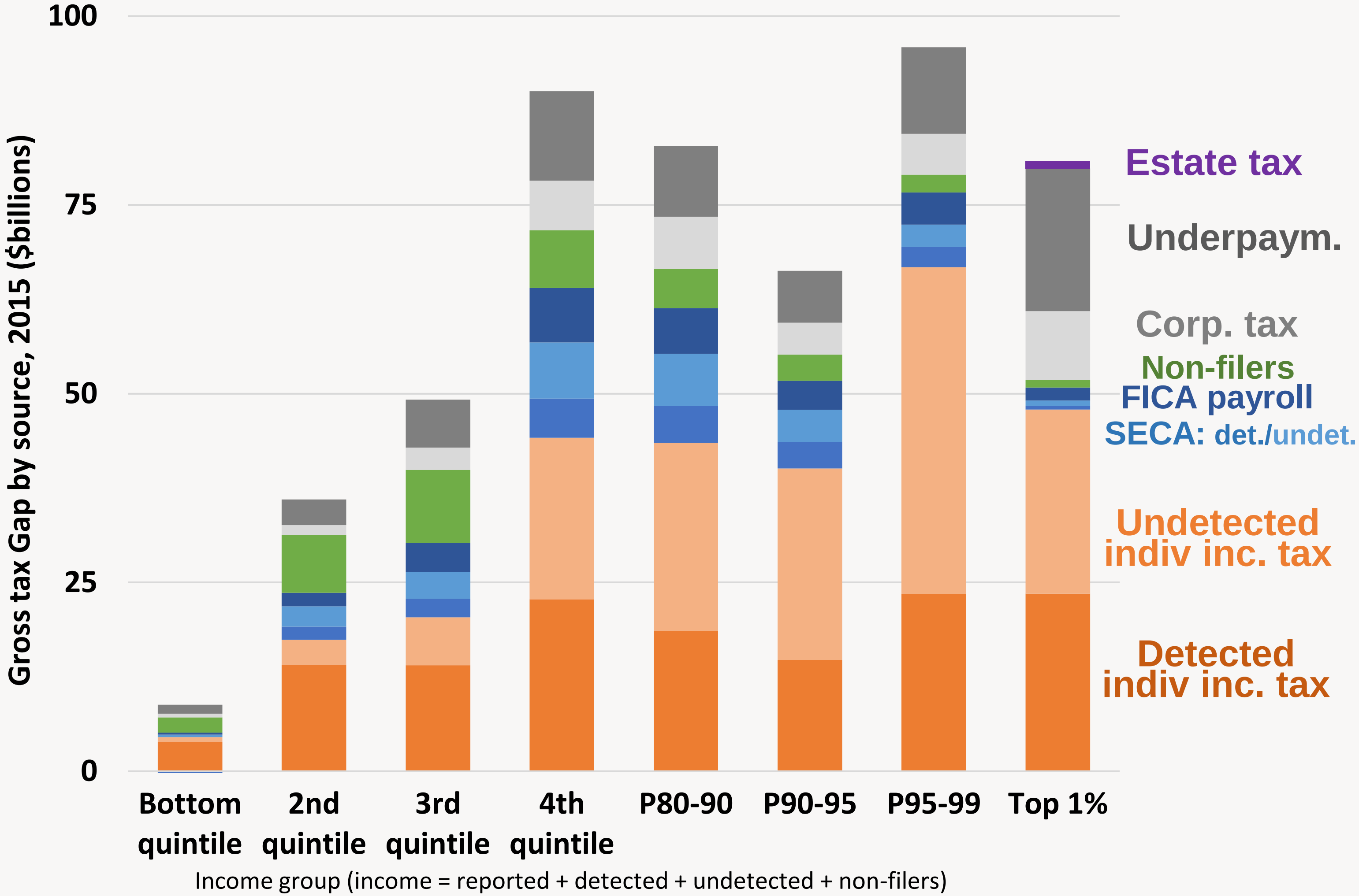
But we allocate less underreporting to lower incomes



Notes: Filers only. Includes detected and undetected amounts. *Source*: Authors' calculations using 2014-15 NRP data and IRS (2024).

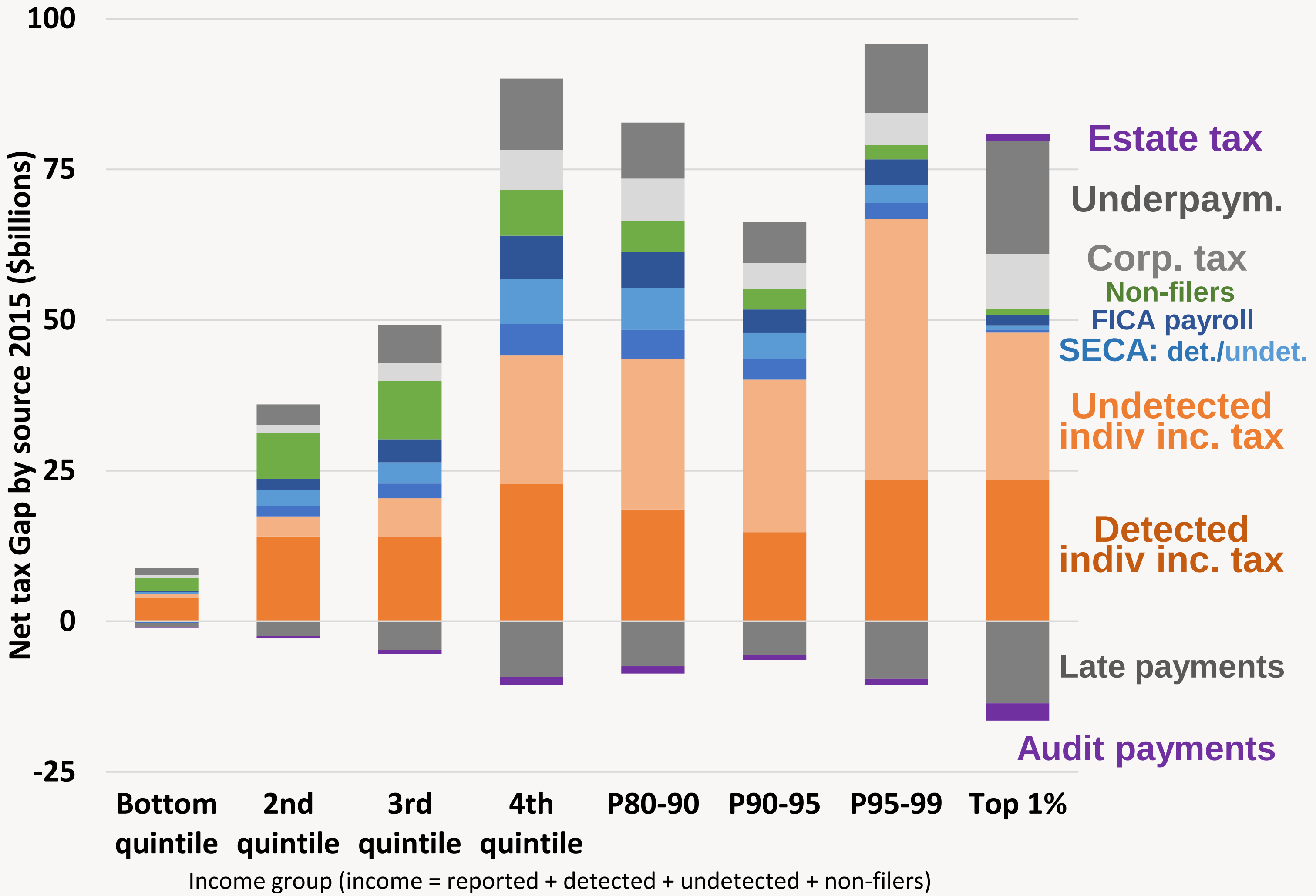
Gross tax gap: Distribution & Sources

Non-filers added using information returns
Target NRP 2014-16 totals for corporate, non-filer, & estate taxes



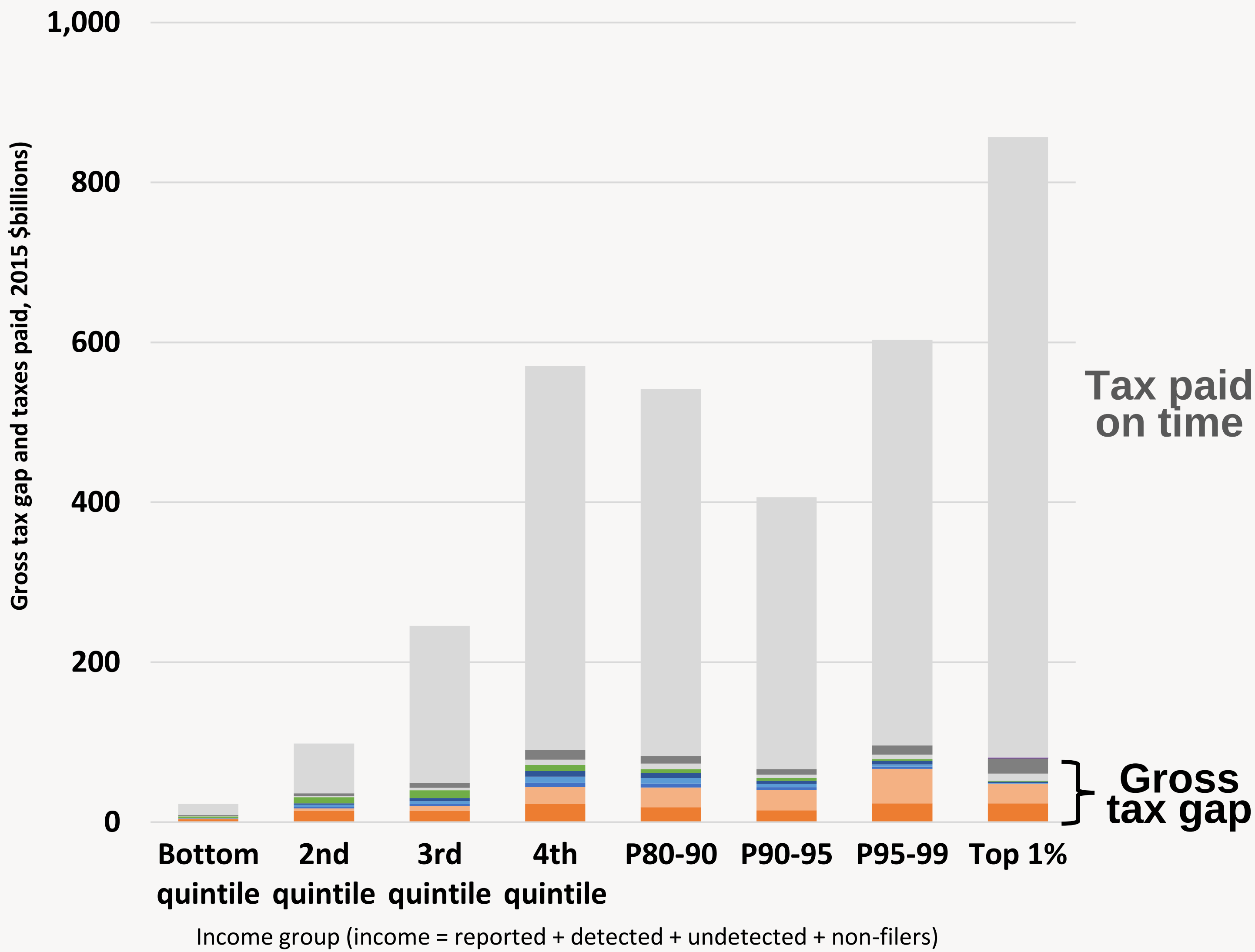
Source: Authors' calculations using 2015 NRP and non-filer data.

Net tax gap: Distribution & Sources



Source: Authors' calculations using 2015 NRP, GAO (2024), and non-filer data.

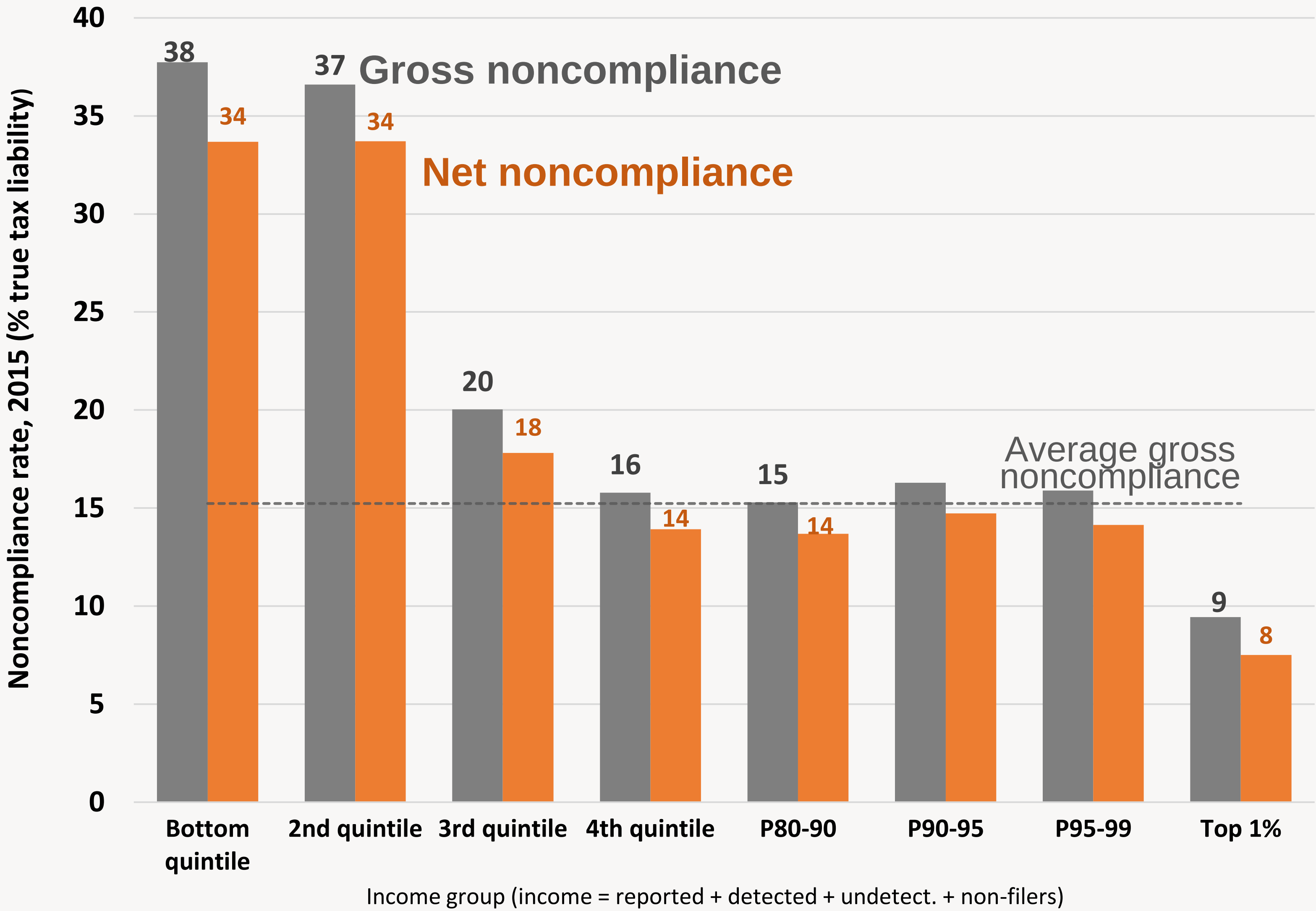
Gross tax gap & progressive taxes



Source: Authors' calculations using 2015 NRP, GAO (2024), and non-filer data.

Tax noncompliance rates in 2015 (%true tax)

Noncompliance rates higher at lower incomes

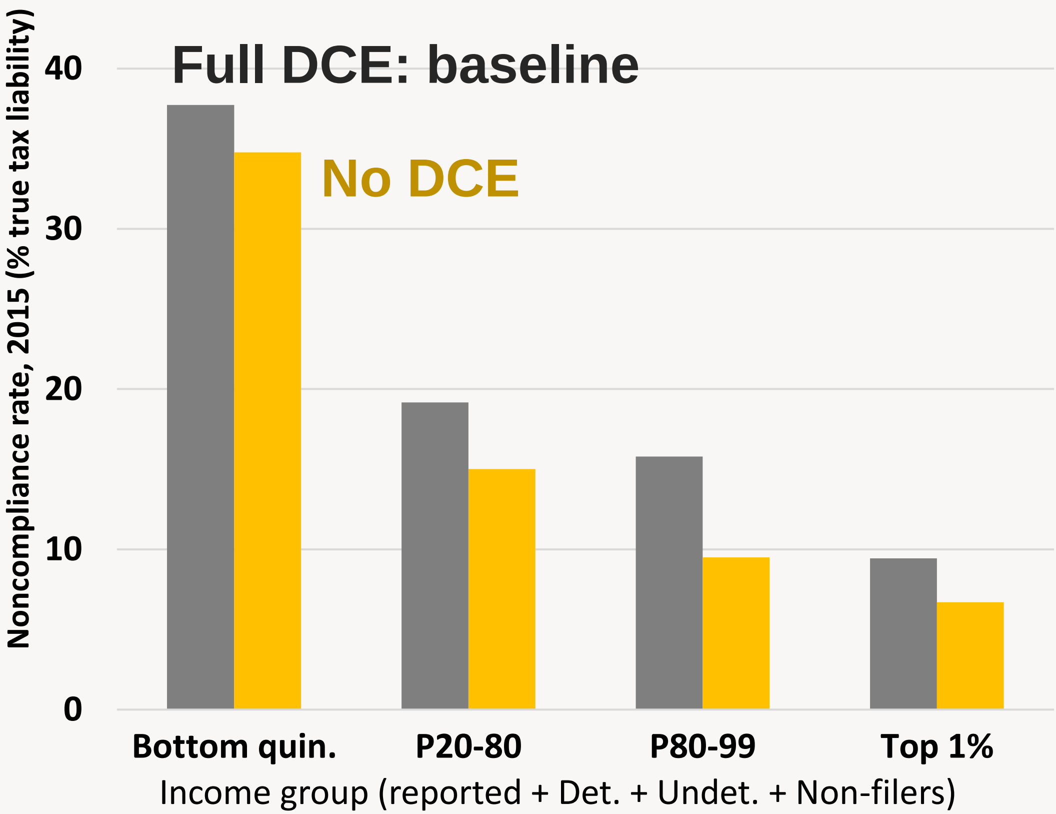


Source: Authors' calculations using 2015 NRP.

Sensitivity test: DCE too large?

DCE from auditor with largest adjustments, not most accurate
(Hemel, Holtzblatt, and Rosenthal 2022)

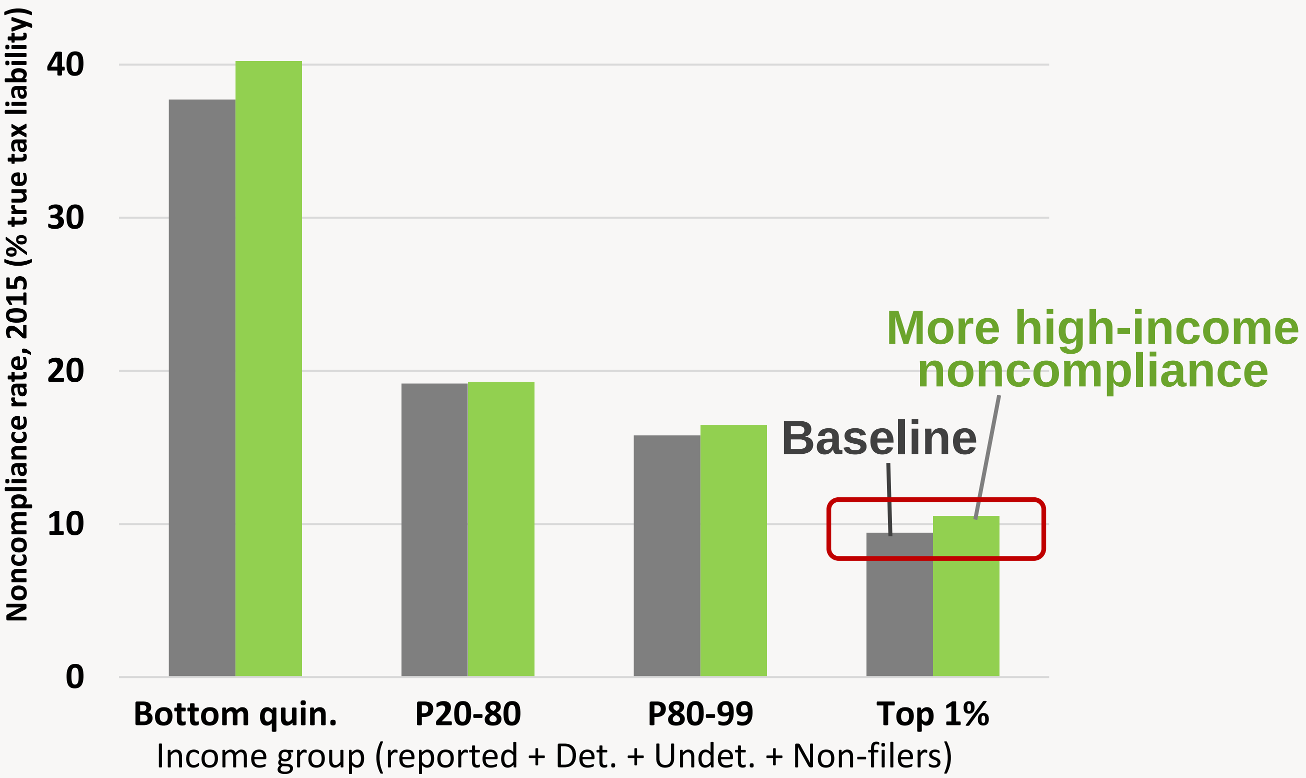
Tax Gaps: UK is 6%, Australia 7%, Canada 11%
US with DCE is 15%, without DCE it's 10%



Source: Authors' calculations using 2015 NRP.

Sensitivity test: More high-inc. noncompliance?

- Taxes from undetected offshore income (half pre-FATCA of Guyton et al.)
  top noncompliance rate up ~half a percentage point
- Taxes from more passthrough income (per Guyton et al. 2021)
  top noncompliance rate up ~half a percentage point



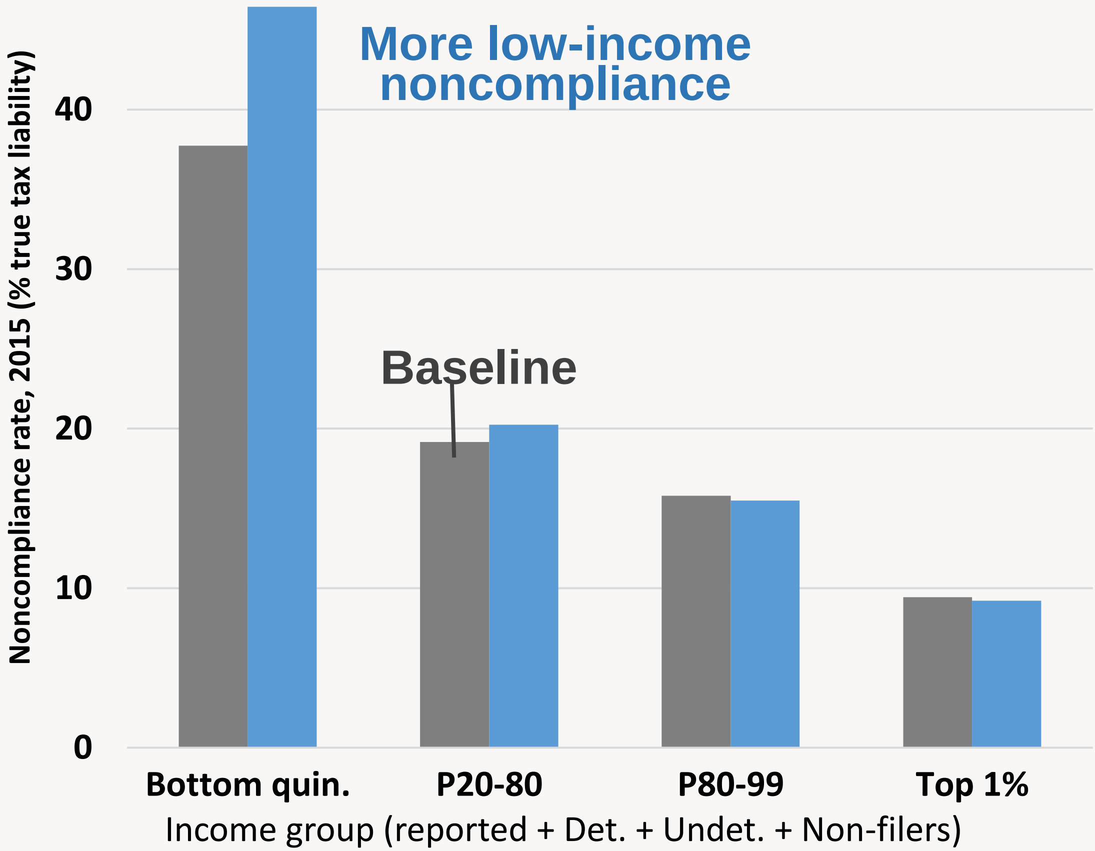
Source: Authors' calculations using 2015 NRP.

Sensitivity tests: More low-inc. noncompliance?

Negligible: corp tax by more wages, FICA lower-incomes, estate tax

Large: add Nannies/Ag workers as not in tax gap (Erard [2018](#))

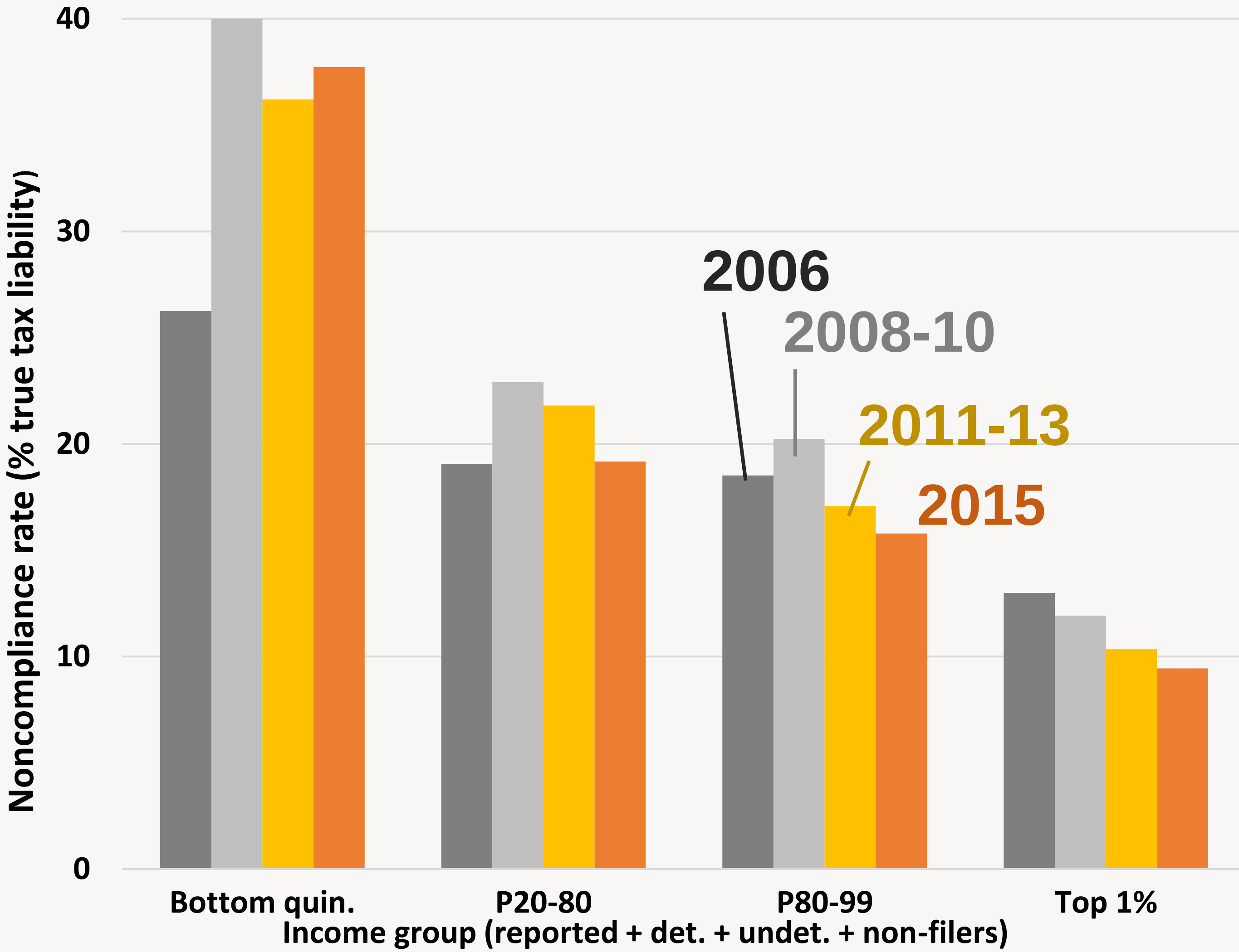
add credits to double-claimed kids (Gorman, McGuire, & Splinter [2025](#))



Source: Authors' calculations using 2015 NRP.

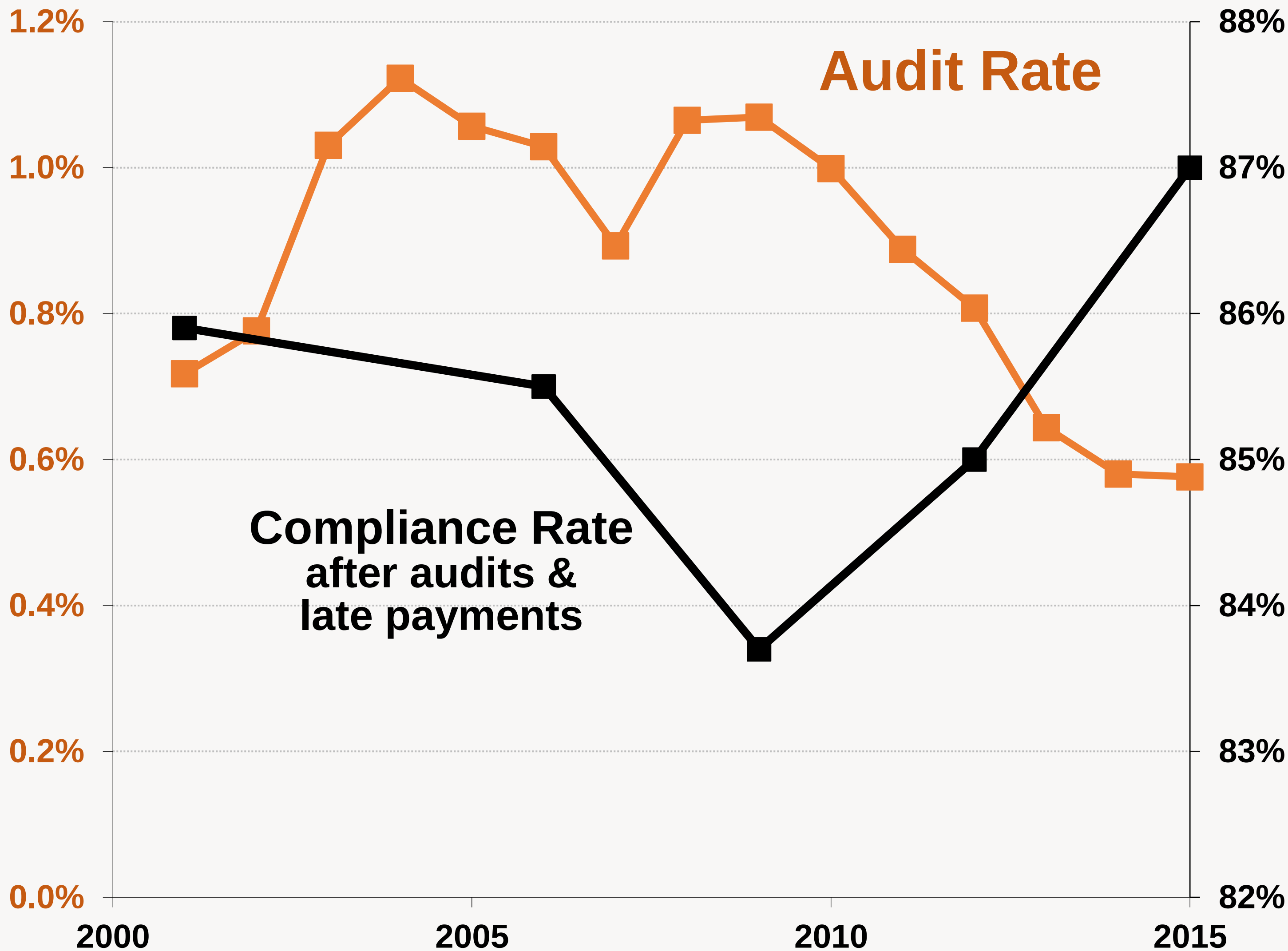
Tax noncompliance rates over time

Bottom-quintile noncompliance ↑ when ref. credits expanded in 2009
Top 1% noncompliance ↓ since 2006



Source: Authors' calculations using NRPs and IRS tax gap totals.

Compliance & audits: Inverse correlation



Source: IRS Data Books and authors' calculations using NRP data.

Why did compliance increase since 2009?

Increased third-party information reporting

- **Certain business receipts on 1099-Ks since 2011** (Slemrod et al. 2017)
- **Capital gains basis on 1099-Bs since 2011**
- **Offshore income: FATCA and FBARs since about 2014** (Johannesen et al. 2024)

Electronic filing rate doubled since 2003

- **E-filing rates from 44% to 94%** (Gorman, McGuire, & Splinter 2024)
- **Modernized e-File system for individual returns in 2010**

Conclusions

Using NRP data, gradient/IRS implicit multipliers, and tax gap totals, we estimate the full tax gap distribution for 2006-2015

Findings

- **Similar to IRS estimates, but less noncompliance for lower-incomes**
- **In 2015, bottom-quintile noncompl. rate four times that of the top 1%**
- **Robust to adding more offshore/passthrough effects**
- **Bottom/top ratio increased from 2.0 to 4.0 between 2006 and 2015**
  - Low-income noncompliance increased
  - High-income noncompliance decreased

Audits seem overrated

- **Audits closed only 0.3% of taxes paid for 2015 returns**
- **Audit rates and compliance rates had inverse correlation**
- **Information returns, e-filing, etc., seem underrated**