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April 18, 1986

The Honorable Dan Rostenkowski
2232 Rayburn Building
Washington, DC 20515

Dear Representative Rostenkowski:

Various proposals pending before Congress would enact a federal amnesty program for delinquent and errant taxpayers.

We oppose a federal amnesty program. In recent years, Internal Revenue Service audit coverage has fallen to a disturbingly low level. We believe, that rather than pursuing an amnesty program, Congress should substantially increase funding to the Service to augment current examination and enforcement activities. Such appropriations by their very nature raise revenue, and serve to increase voluntary compliance and respect for our tax laws.

There are further reasons for opposing amnesty. For an amnesty program to be successful, it must accomplish certain objectives:

- (1) It must raise revenue;
- (2) It must cause those who take advantage of the amnesty program to comply with the tax laws in the future; and
- (3) It must not discourage compliance by those taxpayers who now timely file their tax returns and report their income honestly.



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To raise revenue, the amnesty program must bring forward a substantial number of people who have not been complying with our income tax laws. While some state amnesty programs have derived substantial revenues, we do not believe the experience of those states provides a meaningful guide to what can be expected from a federal program. Many state tax penalties are less severe than their federal counterparts and the enforcement of state revenue laws, in general, has been less pervasive and less effective than the enforcement of federal tax laws. Accordingly, the threat of increased enforcement by the states has encouraged participation in state amnesty programs in a way that would not be present in a federal program.

In addition, the amount of federal income tax involved, together with interest charges for any person taking advantage of the amnesty program, will generally be substantially larger than that person's state income tax liability. Therefore, there may be a greater reluctance to take advantage of any federal amnesty program.

Most of those taking advantage of state amnesty programs are likely to have either originally filed timely and honest federal returns or else made a voluntary disclosure to the Internal Revenue Service at the time of entering their state's amnesty program. Otherwise they probably would have been unwilling to take advantage of the state program. Moreover, we understand that a substantial amount of the revenue collected in state amnesty programs related to matters already under audit prior to the amnesty program or to taxes other than income tax, e.g., sales tax. Also, a substantial number of the non-filers in the state amnesty programs were either out-of-state residents who did not report income derived from such state or were in-state residents who improperly claimed to be out-of-state residents.

Although we have doubts as to the amount of revenue that can be raised from a federal amnesty program, such a program still might be justified if, in fact, it increased the level of compliance with our tax laws by bringing back into the tax system, individuals who previously were not complying. This, however, could not be accomplished without offering

complete relief from all civil and criminal tax penalties related to noncompliance. (Moreover, unless states offer a simultaneous amnesty program, taxpayers still may be reluctant to take advantage of a federal amnesty since the price of doing so, in many instances, would entail the payment of delinquent state income taxes, interest and penalties, including possible criminal penalties.)

An amnesty program providing such broad relief creates the risk that those taxpayers who have been complying with their federal obligations will lose faith in our voluntary system. Furthermore, if an amnesty program includes relief from interest, those who have timely complied with their obligations may feel cheated and respect for our system may be severely injured. There is also the risk that once we have a federal amnesty program, taxpayers will believe that there will be another amnesty program sometime in the future, and such a belief may negatively affect voluntary compliance.

We believe that for an amnesty program to have any chance for success, it must be based on a "carrot and stick" philosophy. Such a program must be preceded by substantial educational and public relations activities coupled with a commitment to the public of increased enforcement activity in the post-amnesty period. The amnesty period must be followed by prompt processing and review of amnesty returns and by increased and sustained enforcement. These requirements cause us concern that the resources devoted to a federal amnesty program will be at the expense of current ongoing enforcement activities.

More importantly, increased and sustained enforcement will require a massive and continued increase in funding. Any amnesty program should be contingent on such funding. We note, however, that even if this Congress is committed to such an undertaking, there can be no assurance that future Congresses will continue that policy.

The Internal Revenue Service unquestionably needs additional resources for increased audit activity, proper utilization of information reporting and document matching and the enforcement of existing

penalties, many of which are relatively new and untested. There are limits on the rate at which additional personnel can be absorbed into the Service. Additional resources must be delivered on a continuing basis. We emphasize our belief that the utilization of increased resources for increased audit activity and for the enforcement of existing penalties makes far more sense than a federal amnesty program.

If, despite our opposition as set forth above, there is to be a federal amnesty program, we believe that it should have the following characteristics:

1. It should provide amnesty for all civil and criminal tax penalties, for legal source income only, and be applicable to the years for which the taxpayer comes forward with returns or amended returns;

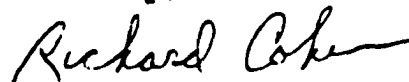
2. There should be no relief from the payment of interest;

3. The returns must be fully accurate. To the extent that the returns reflect questionable positions, such positions must be fully disclosed on the return;

4. The Internal Revenue Service should audit a substantial percentage of the returns filed pursuant to any amnesty program;

5. The amnesty program should not be available to any taxpayer currently under civil or criminal examination for any period under examination, nor to "pass-thru" taxpayers for "pass-thru" items under examination.

Sincerely,



Richard G. Cohen

cc: The Hon. John J. Duncan
Robert J. Leonard, Esq.

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April 18, 1986

The Honorable Bob Packwood
Chairman
Senate Finance Committee
259 Russell Office Building
Washington, DC 20510

Dear Senator Packwood:

Various proposals pending before Congress would enact a federal amnesty program for delinquent and errant taxpayers.

We oppose a federal amnesty program. In recent years, Internal Revenue Service audit coverage has fallen to a disturbingly low level. We believe, that rather than pursuing an amnesty program, Congress should substantially increase funding to the Service to augment current examination and enforcement activities. Such appropriations by their very nature raise revenue, and serve to increase voluntary compliance and respect for our tax laws.

There are further reasons for opposing amnesty. For an amnesty program to be successful, it must accomplish certain objectives:

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Sincerely,



Richard G. Cohen

cc: The Hon. Russell B. Long
John Colvin, Esq.

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April 18, 1986

The Honorable David H. Brockway
Chief of Staff
Joint Committee on Taxation
1015 Longworth Building
Washington, DC 20515

Dear Dave:

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We oppose a federal amnesty program. In recent years, Internal Revenue Service audit coverage has fallen to a disturbingly low level. We believe, that rather than pursuing an amnesty program, Congress should substantially increase funding to the Service to augment current examination and enforcement activities. Such appropriations by their very nature raise revenue, and serve to increase voluntary compliance and respect for our tax laws.

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April 18, 1986

The Honorable J. Roger Mentz
Assistant Secretary (Tax Policy)
Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Room 3120
Washington, DC 20220

Dear Roger:

You have requested our views on enactment of a federal amnesty program for delinquent and errant taxpayers.

We oppose a federal amnesty program. In recent years, Internal Revenue Service audit coverage has fallen to a disturbingly low level. We believe, that rather than pursuing an amnesty program, Congress should substantially increase funding to the Service to augment current examination and enforcement activities. Such appropriations by their very nature raise revenue, and serve to increase voluntary compliance and respect for our tax laws.

There are further reasons for opposing amnesty. For an amnesty program to be successful, it must accomplish certain objectives:

(1) It must raise revenue;

(2) It must cause those who take advantage of the amnesty program to comply with the tax laws in the future; and

(3) It must not discourage compliance by those taxpayers who now timely file their tax returns and report their income honestly.



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To raise revenue, the amnesty program must bring forward a substantial number of people who have not been complying with our income tax laws. While some state amnesty programs have derived substantial revenues, we do not believe the experience of those states provides a meaningful guide to what can be expected from a federal program. Many state tax penalties are less severe than their federal counterparts and the enforcement of state revenue laws, in general, has been less pervasive and less effective than the enforcement of federal tax laws. Accordingly, the threat of increased enforcement by the states has encouraged participation in state amnesty programs in a way that would not be present in a federal program.

In addition, the amount of federal income tax involved, together with interest charges for any person taking advantage of the amnesty program, will generally be substantially larger than that person's state income tax liability. Therefore, there may be a greater reluctance to take advantage of any federal amnesty program.

Most of those taking advantage of state amnesty programs are likely to have either originally filed timely and honest federal returns or else made a voluntary disclosure to the Internal Revenue Service at the time of entering their state's amnesty program. Otherwise they probably would have been unwilling to take advantage of the state program. Moreover, we understand that a substantial amount of the revenue collected in state amnesty programs related to matters already under audit prior to the amnesty program or to taxes other than income tax, e.g., sales tax. Also, a substantial number of the non-filers in the state amnesty programs were either out-of-state residents who did not report income derived from such state or were in-state residents who improperly claimed to be out-of-state residents.

Although we have doubts as to the amount of revenue that can be raised from a federal amnesty program, such a program still might be justified if, in fact, it increased the level of compliance with our tax laws by bringing back into the tax system, individuals who previously were not complying. This, however, could not be accomplished without offering

complete relief from all civil and criminal tax penalties related to noncompliance. (Moreover, unless states offer a simultaneous amnesty program, taxpayers still may be reluctant to take advantage of a federal amnesty since the price of doing so, in many instances, would entail the payment of delinquent state income taxes, interest and penalties, including possible criminal penalties.)

An amnesty program providing such broad relief creates the risk that those taxpayers who have been complying with their federal obligations will lose faith in our voluntary system. Furthermore, if an amnesty program includes relief from interest, those who have timely complied with their obligations may feel cheated and respect for our system may be severely injured. There is also the risk that once we have a federal amnesty program, taxpayers will believe that there will be another amnesty program sometime in the future, and such a belief may negatively affect voluntary compliance.

We believe that for an amnesty program to have any chance for success, it must be based on a "carrot and stick" philosophy. Such a program must be preceded by substantial educational and public relations activities coupled with a commitment to the public of increased enforcement activity in the post-amnesty period. The amnesty period must be followed by prompt processing and review of amnesty returns and by increased and sustained enforcement. These requirements cause us concern that the resources devoted to a federal amnesty program will be at the expense of current ongoing enforcement activities.

More importantly, increased and sustained enforcement will require a massive and continued increase in funding. Any amnesty program should be contingent on such funding. We note, however, that even if this Congress is committed to such an undertaking, there can be no assurance that future Congresses will continue that policy.

The Internal Revenue Service unquestionably needs additional resources for increased audit activity, proper utilization of information reporting and document matching and the enforcement of existing

penalties, many of which are relatively new and untested. There are limits on the rate at which additional personnel can be absorbed into the Service. Additional resources must be delivered on a continuing basis. We emphasize our belief that the utilization of increased resources for increased audit activity and for the enforcement of existing penalties makes far more sense than a federal amnesty program.

If, despite our opposition as set forth above, there is to be a federal amnesty program, we believe that it should have the following characteristics:

1. It should provide amnesty for all civil and criminal tax penalties, for legal source income only, and be applicable to the years for which the taxpayer comes forward with returns or amended returns;

2. There should be no relief from the payment of interest;

3. The returns must be fully accurate. To the extent that the returns reflect questionable positions, such positions must be fully disclosed on the return;

4. The Internal Revenue Service should audit a substantial percentage of the returns filed pursuant to any amnesty program;

5. The amnesty program should not be available to any taxpayer currently under civil or criminal examination for any period under examination, nor to "pass-thru" taxpayers for "pass-thru" items under examination.

Sincerely,

Rich

Richard G. Cohen