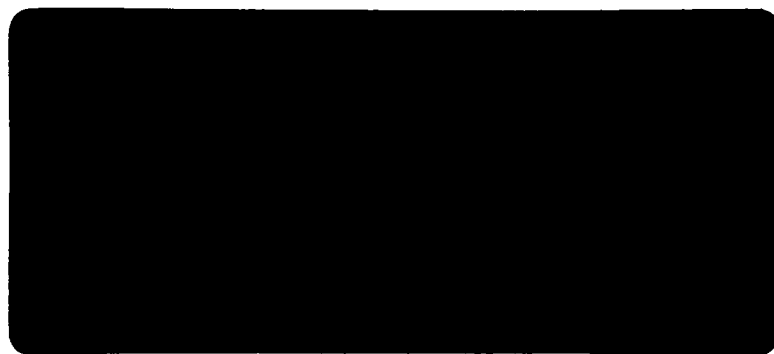




70276

**BUREAU OF SOCIAL SCIENCE RESEARCH, INC.**

WASHINGTON, D. C.



Project 555  
BSSR 0583-01

THE INTERNAL REVENUE SERVICE:

MEASURING TAX OFFENSES AND  
ENFORCEMENT RESPONSE

by:

Susan B. Long

Support for this research was received under grants from the U.S. Department of Justice, Law Enforcement Assistance Administration (Grant Nos. 78-NI-AX-0007 and NI-AX-0132) and the National Science Foundation (Grant No. SOC-7825039). This research is part of a larger study conducted by the author on federal income tax enforcement. Any opinions, findings, and conclusions expressed are those of the author and do not necessarily reflect those of the supporting agencies.

Bureau of Social Science Research, Inc.  
1990 M Street, N.W.  
Washington, D.C. 20036

June 1980

## Notice

### Machine-Readable Availability

This document, as with all other reports of this project, is available in machine-readable form. As an electronic record, it is accessible for free-text searching by users who wish to locate within it references to particular subjects. For example, a user who wishes to locate all references to some particular agency, class of violation, or concept may readily do so, either by obtaining an electronic copy of the entire document file or by requesting BSSR to perform a search of the document for particular words or strings of words. An electronic file record of the document is currently available in the Michigan Terminal System and, on request to BSSR, it will be permitted to any user who has access to that system.

For further information, contact Albert Biderman at BSSR.





•

•

•

•

•

•

•

•

•

•

•

## ABSTRACT

This case study of federal income tax violations data illustrates both the strengths and limitations of current data sources on white-collar offenses. This report assesses the availability of statistical data on federal tax violations from Internal Revenue Service records. It examines how such data might be combined to measure the extent of tax violations and enforcement actions, and their distribution and changing character over time.

Three direct and three indirect measurement techniques for estimating offense prevalence are examined in depth: (1) the "random investigation" method, (2) self-reports, (3) cross-validation matching third-party reports with self-report data, (4) criterion-based predictive formula from tax data, (5) non-criterion based estimates from monetary data, and (6) residual estimators based upon differences between national income and tax series.

Special attention is directed at the importance and difficulties of separating criminal and other serious tax violations from violations in general, as well as to problems created by the nature of statutory law and its changing requirements and coverage.

The report concludes with an examination of available information on enforcement activities and sanction levels from IRS's management information systems. Problems of data reliability and the difficulties of matching information across separate data systems are assessed.

•

•

•

•

•

•

•

•

•

•

•

## TABLE OF CONTENTS

ABSTRACT . . . . .	i
LIST OF FIGURES. . . . .	v
LIST OF TABLES . . . . .	vii
PREFACE. . . . .	xi
SUMMARY. . . . .	xiii
 CHAPTER I: TAX OFFENSES AND WHITE-COLLAR CRIME. . .	 1
Substantive Requirements of the Tax Code. . . . .	1
Types of Duties. . . . .	1
Types of Taxes and Revenue Generated . . . . .	2
Population and Activities Covered. . . . .	9
Statutory Penalty Provisions for Tax Violations . .	10
Range of Penalty Provision . . . . .	11
Classifying Sanctions. . . . .	13
A. The Severity of Penalties . . . . .	13
B. Standards for Imposition. . . . .	22
C. Relative Frequency of Use . . . . .	25
Comparing Offenses: Type and Culpability. . .	29
Classifying Offenders. . . . .	32
Defining Tax Violations as White-Collar Crime . .	33
CHAPTER II: STATUTORY HISTORY . . . . .	35
Substantive Tax Provisions: Changes in Coverage and Complexity. . . . .	35
Changing Sources of Federal Revenue. . . . .	35
Changing Coverage of Tax Statutes. . . . .	40
Changing Complexity of Substantive Requirements . . . . .	47
Changes in Penalty Provisions: An Evolutionary Process . . . . .	49

Statutory Change: Implications for Data on White-Collar Crime. . . . .	52
---	----

CHAPTER III: MEASURING TAX NONCOMPLIANCE: ALTERNATIVE DATA SOURCES AND ESTIMATION TECHNIQUES .	53
---	----

Estimating Tax Noncompliance: The Random Investigation . . . . .	53
---	----

TCMP Sampling and Data Collection Procedures .	55
--	----

TCMP Estimates of Tax Noncompliance. . . . .	58
--	----

A. Underreporters. . . . .	58
B. Nonfilers . . . . .	63

Limitation of TCMP-Based Measures of Tax Violations . . . . .	65
--	----

A. Limitations in Coverage . . . . .	65
B. Appropriateness of Standards. . . . .	70
C. Reliability of TCMP-Based Compliance Measures. . . . .	73

Other Direct Measures of Tax Violations: Self- Reports and Third-Party Records . . . . .	78
---	----

Self-Reports . . . . .	79
------------------------	----

Matching Self-Reports and Third-Party Information. . . . .	80
---	----

The Exact Match File . . . . .	83
--------------------------------	----

Estimating Tax Noncompliance: Predictive Indices	86
--	----

Monetary Based Indices of Unreported Income. .	87
--	----

A. Alternative Estimation Procedures . . .	91
B. Short Comings of Currency-Based Approaches. . . . .	92

Predicting Noncompliance from Tax Return Information. . . . .	93
--	----

A. DIF Formulae Developed by IRS . . . . .	93
B. Limitations of DIF Scores as Indices of Tax Noncompliance . . . . .	94

Residual Noncompliance Indicators . . . . .	104
---	-----

Residual Estimates of Income Underreporting. .	105
--	-----

Limitations of the Residual Method: Validity and Reliability of . . . . .	110
Robustness of the Residual Estimator. . . . .	112
CHAPTER IV: CRIMINAL TAX OFFENSES: ESTIMATES OF THE EXTENT OF SERIOUS TAX VIOLATIONS . . . . .	117
TCMP Data on Serious Income Tax Offenses. . . . .	118
Estimates of Criminal Income Tax Offenses on Filed Returns. . . . .	120
Estimates of Serious Civil Violations of Individual Returns . . . . .	122
Variations in Serious Violations by Taxpayer Class. . . . .	126
Conclusions . . . . .	126
CHAPTER V: ENFORCEMENT STATISTICS . . . . .	131
IRS--An Enforcement Agency. . . . .	131
Examination, Collection, and Criminal Investigation: The Major Enforcement Divisions. . . . .	133
Other IRS Units Involved in Enforcement Actions: Appeals, Chief Counsel, EP/EO, and Data Services. . . . .	135
Geographic Distribution of Enforcement Activity: National, Regional and District Offices. . . . .	137
Enforcement Activities Over Time. . . . .	141
CHAPTER VI: CRIMINAL ENFORCEMENT ACTIONS INFORMATION SYSTEMS AND DETAILED STATISTICS. . . . .	149
Terminal-Based Case Management and Time Reporting System (CM&TRS) . . . . .	151
Case Histories . . . . .	152
A. Units Counted . . . . .	152
B. Information Coded . . . . .	153
Project Histories. . . . .	157
Time Application . . . . .	158

Supplemental Sources of Information on Criminal Processing and Cases. . . . .	159
Information Item and Referral Processing . . .	159
Planning Model Study Civil Follow-up on Criminal Prosecutions. . . . .	162
Earlier Criminal Investigation Information Systems. . . . .	164
Strengths and Weaknesses of the Criminal Investigation Division Information System . . . .	165
Case History Analysis: Limitations in How Cases Can Be Easily Grouped. . . . .	166
Indicators of Data Reliability . . . . .	168
Information Not Compiled: Cases and Stages Not Covered. . . . .	178
APPENDIX A: CRIMINAL AND CIVIL PENALTY STATUTES ENFORCED BY THE INTERNAL REVENUE SERVICE . . . . .	181
APPENDIX B: COVERAGE AND EVOLUTION OF MAJOR TAX . .	197
Section 7201: Willful Attempt to Evade or Defeat Any Tax . . . . .	199
Section 7203: Willful Failure to File Returns, Supply Information, or Pay Tax. . . . .	200
Section 7206(1): Fraud and False Statements . . .	201
Section 7206(2): Aiding or Advising Fraud and False Statements. . . . .	202
Section 7215: Offenses with Respect to Collected Taxes . . . . .	203
Section 6653(b): Civil Fraud Penalty . . . . .	205
APPENDIX C: HISTORICAL STATISTICS ON SOURCES OF FEDERAL REVENUES . . . . .	211
APPENDIX D: DETAILED CATEGORIES CODED BY IRS ON CRIMINAL INVESTIGATION CASES . . . . .	223
REFERENCES . . . . .	261



## LIST OF FIGURES

Figure 1.1	Sources of Net Internal Revenue Collection Fiscal 1978 . . . . .	8
Figure 1.2	Internal Revenue Service Distribution of Maximum Penalties by Criminal Code Provisions . . .	14
Figure 1.3	Criminal Tax Convictions Internal Revenue Service . . . . .	17
Figure 1.4	Federal Tax Offenses Average Financial Penalties, 1978 . . . . .	21
Figure 2.1	Growing Importance of Internal Sources of Revenue . . . . .	36
Figure 2.2	Declining Importance of Excise Taxes as a Source of Federal Internal Revenue, 1873-1978 . . .	38
Figure 2.3	Changing Components of Federal Internal Revenue, 1863-1978 . . .	39
Figure 2.4	Shifting Components of Federal Income Tax Revenue, 1910-1978 . .	41
Figure 2.5	Growth in Constant Dollars of Internal Revenue by Source, 1910-1978 . . . . .	43
Figure 2.6	Changing Coverage of Federal Income Tax Laws, 1916-1976 . . . . .	44
Figure 2.7	Proportion of U.S. Personal Income Covered by Federal Income Tax Laws, 1917-1977 . . . . .	45
Figure 3.1	TCMP Audit Time and Measured Tax Underreporting, 1963-1973 . . . .	74
Figure 3.2A	Relationships of Currency Outside Banks to Demand Deposits; and Tax Ratio . . . . .	88
Figure 3.2B	Ratio of Currency to Demand Deposits vs. Personal Outlays, 1937-1977 . . . . .	89
Figure 3.3	Currency in Circulation by Denomination, per \$100 of Final Sales . . . . .	90

Figure 3.4	Low (top map) and High (bottom map) DIF Score Districts for Wage-Earner Standard Deduction Returns <\$10,000	96
Figure 3.5	Low (top map) and High (bottom map) DIF Score Districts for Wage-Earner Itemized Returns . . . . .	97
Figure 3.6	Low (top map) and High (bottom map) DIF Score Districts for Wage-Earner Returns \$10,000-\$50,000 . . . . .	98
Figure 3.7	Low (top map) and High (bottom map) DIF Score Districts for Wage-Earner Returns <u>&gt;</u> \$50,000 . . . . .	99
Figure 3.8	Estimated Rate of Income Underreporting, 1947-1977 . . . . .	109
Figure 5.1	IRS Expenditures by Activity, 1960-1972 . . . . .	134
Figure 5.2	Internal Revenue Regions and Districts . . . . .	138
Figure 5.3	Internal Revenue Service Organization Chart 1978 . . . . .	140
Figure 6.1	Criminal Tax Cases: Processing Stages . . . . .	167
Figure 6.2	Construction of Synthetic Cohort . .	169
Figure 6.3	Criminal Investigation Cases Remaining After Stage: . . . . .	170

# LIST OF TABLES

Table 1.1	Internal Revenue Collections by Source, Fiscal Years 1976-1978. . .	3
Table 1.2	Net Internal Revenue Collection by Major Categories Fiscal Year 1978 .	7
Table 1.3	Internal Revenue Service Criminal Tax Sentences, 1974-1978. . . . .	16
Table 1.4	Sentencing of Defendants Convicted in U.S. District Courts, 1974-1977.	18
Table 1.5	Prison Sentences by Code Section. .	19
Table 1.6	Comparison of Criminal and Civil Financial Penalties Fiscal 1978 . .	20
Table 1.7	Imposition of Tax Penalties, Procedures and Standards. . . . .	23
Table 1.8	Recommendations for Criminal Tax Prosecution Internal Revenue Service . . . . .	26
Table 1.9	Imposition of Federal Tax Sanctions for Fiscal 1976 Frequencies of Civil Penalty and Criminal Convictions . . . . .	28
Table 3.1	Measuring Income Tax Noncompliance: Alternative Data Sources and Estimation Techniques . . . . .	54
Table 3.2	Taxpayer Compliance Measurement Program Phases/Cycles . . . . .	56
Table 3.3	Data Collection Instrument for TCMP Survey of 1976 Individual Income Tax Returns . . . . .	59
Table 3.4	TCMP Phase III: Individual Income Tax Returns . . . . .	62
Table 3.5	Individual Income Tax Statutory Rate Schedule . . . . .	64
Table 3.6	Detectability of Income Tax Underreporting on Form 1040 and 104A Returns. . . . .	67
Table 3.7	Regular IRS District Audit Findings and Results After Appeals . . . . .	69

Table 3.8	Length of TCMP Audits by Type of Return, Tax Years 1963-1973 . . . .	76
Table 3.9	TCMP Measures of Prevalence and Amount of Tax Underreporting by Categories of Individual Income Tax Returns . . . . .	77
Table 3.10	Estimated Amount of Unreported Income for 1976 as Percent of Reportable Amount, By Type of Income. . . . .	82
Table 3.11	U.S. Resident Civilian Noninstitutional Adult Population: Number of Potential Individual Income Tax Filing Units for 1972. .	84
Table 3.12	U.S. Resident Civilian Noninstitutional Adult Population: Number of Potential Individual Income Tax Filing Units for 1972. .	85
Table 3.13	IRS Audits of Income Tax Returns Files by Individual, Fiscal 1978. .	95
Table 3.14	Percent of Returns with High DIF Scores by Income and Geographic Area. . . . .	100
Table 3.15	Association Within Return Classes of Average TCMP Sample Audit Results and DIF Score Group Rankings. . . . .	102
Table 3.16	Association Between DIF and TCMP Noncompliance Indices for IRS Regions . . . . .	103
Table 3.17	Derivation of Estimate of Personal Income Improperly Omitted from Federal Income Tax Returns. . . . .	106
Table 3.18	Estimated Rate of Income Underreporting on Federal Income Tax Returns, 1947-1977. . . . .	108
Table 3.19	Sensitivity of Estimates of Income Underreporting. . . . .	113
Table 4.1	Estimated Criminal Income Tax Violation Rates Returns Filed by Individuals. . . .	120

Table 4.2	Estimated Rates of Serious Income Tax Offenses: Negligence Civil Fraud and Criminal Violations. . . . .	124
Table 4.3	Comparison of Estimated Serious Violation Rates by Offender Class .	127
Table 5.1	Internal Revenue Gross Collections.	132
Table 5.2	IRS Budgetary Expenditures. . . . .	132
Table 5.3	Internal Revenue Service Comparison of Tax Enforcement Personnel, 1948-1978 . . . . .	143
Table 5.4	Internal Revenue Service Comparison of Tax Enforcement Activity, 1948-1978 . . . . .	144
Table 5.5	Internal Revenue Service Budget, Staffing and Enforcement Activity Ratios, 1948-1978 . . . . .	145
Table 6.1	Information Coded on Criminal Investigation Cases . . . . .	154
Table 6.2	Criminal Tax Case Investigations and Convictions by Original Source of Referral of Lead, 1974-1979. . .	161
Table 6.3	Types of Information Systems. . . .	165
Table 6.4	Outcome by Stage in Processing Criminal Tax Cases Fiscal 1978. . .	171
Table 6.5	Criminal Tax Cases Initiated, Disposed of, and In Inventory: Data Discrepancies in Case Flows. .	173
Table 6.6	Recommendations for Criminal Prosecution: IRS District Counsel Case Review . . . . .	175
Table 6.7	Referrals of Criminal Cases to U.S. Attorneys by IRS . . . . .	177
Table A.1	Criminal Penalty Statutes Enforced by the Internal Revenue Service . .	183
Table A.2	Civil Penalty Statutes Enforced by the Internal Revenue Service. . . .	190

Table C.1	Components of Internal Revenue, 1863-1978 . . . . .	213
Table C.2	Income Tax Collection, 1910-1978 .	216
Table C.3	Excise Tax Collections, 1863-1978 .	218
Table D.1	Occupational Categories Coded on Criminal Investigation Cases . . .	225
Table D.2	Industry Code Criminal Investigation Cases . . . . .	239
Table D.3	Taxpayer Income/Asset/Activity/ Class Codes Criminal Investigation Cases . . . . .	241 241
Table D.4	Illegal Activity Codes Criminal Investigation Cases . . . . .	253
Table D.5	Source of Referral Codes Criminal Investigation Cases . . . . .	256
Table D.6	Codes to Record Status Changes in Criminal Investigation Cases . . .	257

## PREFACE

This report summarizes an investigation of data sources on federal tax administration which has stretched over many years, and my gratitude to a diverse array of persons and organizations who have assisted me at different points along the way is profound.

Special thanks are due many staff members, both past and present, of the Internal Revenue Service who aided my research, and to a law -- the federal Freedom of Information Act (5 U.S.C. 552) -- which provided the essential legal guarantees of access to internal agency records which formerly were unavailable to the public. Assistance, support and encouragement provided by Reuben Lenske, Stephen Strong, Judy Bendich and David Stobaugh, and to staff members (current and past) of congressional committees including the Joint Committee on Internal Revenue, and subcommittees of Finance, Ways and Means, House Operations, Senate Judiciary, and Senate Appropriations who helped at critical junctures in securing access to necessary information and documents is gratefully acknowledged.

I am indebted to the support received from the National Institute of Justice and the National Science Foundation for my research, and to the warm and supportive atmosphere at the Bureau of Social Science Research where the later stages of my work were completed. A special warm spot in my heart goes to two external referees for the National Institute of Justice, William Chambliss and Gilbert Geis, for their exceedingly helpful comments and suggestions on the manuscript, and to Bernard Auchter, NIJ Project Monitor, for his encouragement and assistance.

Countless discussions with Albert Biderman, Albert Reiss, John Vincent and Martin Mistretta of the White-Collar Crime Data Sources Project, and with Howard Wainer at BSSR provided a stimulating environment for work. I have also benefited greatly over the years from insights of Clarence Schrag, Herbert Costner, and Hubert Blalock on issues of crime and measurement, and from the legal perspective on the tax area provided by Roland Hjorth of the University of Washington. My debt to librarians, and particularly to the helpfulness of staff at the Law Library and Government Documents Center at the University of Washington, the U.S. Treasury Library, and the Bureau of Social Science Research is deep.

The support provided by staff of the Bureau of Social Science Research for administrative, editorial, computer, and text processing was vital. I wish to express my sincere appreciation to Elizabeth Stevens and Norma Chapman for all their efforts, including the diverse array of skills they

brought to bear in turning my research into a final written manuscript, and especially for their ingenuity and good humor throughout the process. Thanks are also due to Molly Skardon, Puri Tan, Prem Khurana, Brad Marcus, and Mary Kearney, BSSR librarians Connie Zuga, Mary Hartz and Lucy Duff, and BSSR's systems staff Doug Neal, Kyo Ohira, Anthony Cantrick, and Jeff Momoi for their help.

Only those acquainted with the long and sometimes tortuous path of this research can properly appreciate the important direct and indirect role my husband, Philip Long, has played over the years. My debt to him is beyond acknowledgment.



## SUMMARY

Traditional ways of measuring "crime" are based largely upon victim reports -- either from offenses reported to the police, or from victim surveys. Despite many limitations in reporting, recording, and compilation, victim reports do provide at least a starting point for estimating crime rates. Many areas of criminal law, however, are not covered by such reports, either because there are no "victims" in the usual sense, or because of the nature of the violation victims are either unaware or fail to report they have been victimized. In this latter category fall large segments of white-collar crime. Estimating white-collar offense rates thus requires alternative data sources, and often new measurement methods.

Both the nature of the law, and the enforcement process in the white-collar area, also create additional problems in developing statistics on white-collar offenses. Beyond the lack of victim reports, these added problems include: the complexity, variety and changing nature of many statutory provisions for white-collar offenses, the broader range and variety of enforcement processes (including the frequent use of civil as well as criminal sanctions), and the proliferation of specialized enforcement agencies, offices and divisions whose activities all need to be covered.

Against this background of problems and issues in developing useful statistical series in the white-collar area, this report addresses the practical question of data availability. Focusing upon federal income tax violations as an illustration of both the strengths and limitations of current data sources in the white-collar area, the reports compares what information we would like to have against information that is currently available. The report surveys the availability of statistical data on federal tax violations from internal agency records of the Internal Revenue Service, and examines how such data might be combined to measure the extent of tax violations, their distribution and changing character over time. Problems of both over- and under-reporting of tax violations are discussed, along with related issues of data validity and reliability. Finally, available information on enforcement activities and sanctioning levels from IRS's management information systems are assessed.

The report is divided into three sections. Chapters I and II review the statutory law. Chapters III and IV discuss alternative approaches to measuring tax violations, both civil and criminal. The concluding two chapters,

Chapters V and VI, outline the scope of enforcement activities, and the availability of detailed statistics on sanctioning actions.<sup>1</sup>

## THE STATUTORY BASIS OF FEDERAL TAX OFFENSES

### Substantive Requirements of the Tax Code

Federal tax statutes impose four major requirements. For taxpayers three requirements apply: (1) filing of timely returns, (2) proper reporting of tax liabilities, and (3) timely payment of taxes. For employers an additional duty is imposed: (4) withholding of taxes. While there are other requirements beyond these four, the essentials of our federal tax structure are requiring persons to report and pay on time their correct federal taxes through a self-assessment system.

These duties cut across different types of taxes imposed under the current Internal Revenue Code. Five general classes of internal taxes are exacted: income, estate, gift, employment and excise taxes. Individual and corporate income taxes, along with social security taxes, lead the list as revenue producers.

These substantive requirements have wide impact. Virtually everyone receiving income above certain minimum levels is subject to the reporting and payment of federal income taxes. Few economic transactions fail to be influenced by, or subject to, some federal tax requirement--and many personal and nonbusiness activities have tax consequences. Indeed, as Justice Jackson in Dobson v. Commissioner, 320 U.S. 489, aptly noted: "No other branch of the law touches human activities at so many points."

### Statutory Penalty Provisions for Tax Violations

Both criminal and civil penalties play important roles in the tax area. There are nineteen major criminal provisions in the Internal Revenue Code and twenty-nine

---

<sup>1</sup> Appendices to the report list criminal and civil statutes enforced by the I.R.S. (Appendix A), and describe the coverage and evolution of the major tax penalty provisions (Appendix B). Historical statistics on federal revenues, along with a catalog of the categories of detailed information compiled by IRS on criminal investigation cases are included in Appendices C and D.

criminal provisions within the U.S. Criminal Code applicable to tax offenses. There are also over 50 provisions of civil penalty in the tax code alone.

Sanctions include both physical (incarceration) and financial penalties. Aside for killing an internal revenue officer (a capital offense under 18 U.S.C. 1114), criminal penalties range up to a five-year maximum sentence on each count of specific tax violation under the Internal Revenue Code, and up to a ten-year maximum prison sentence under the more general provisions of the criminal code (Title 18 of the United States Code). Tax offenders generally receive prison terms less frequently (and with less average sentence time) than the average federal offender. Only somewhere between 3 and 4 out of 10 defendants convicted of criminal tax offenses received prison time, with an average sentence of 12 months or less.

In financial terms, however, civil penalties are often much more severe than criminal ones. Most civil penalties are based on the amount of underpayment, and range from half a percent up to 125 percent of unpaid taxes due. Thus, while the maximum penalty under criminal statutes is limited to \$10,000 with a statutory median of \$5,000, civil penalties have no ceiling. For example, civil fraud penalties for corporate taxpayers averaged over \$30,000 in 1978, while the penalties and added tax amounted to over \$90,000.

The relative frequency of use of civil versus criminal penalties underlines the important role civil penalties play in sanctioning tax violations. Out of a total of nearly 14 million sanctions imposed by IRS in 1978, less than 1 in 10,000--only 1,414--involved a criminal sanction. Even among serious violations where fraud or negligence was involved, out of over 75,000, less than 1 in 50 resulted from a criminal case. The frequency with which penalties are imposed is related to the ease of their imposition. In contrast to the stringent requirements of proof and procedure in criminal law, civil penalties are administratively assessed and collected just as any tax, without the necessity for any court determination.

Penalty provisions can be arrayed by the culpability of the behavior (or offense) sanctioned. Civil and criminal provisions, however, cannot be reliably distinguished on the basis of culpability, nor is culpability systematically related to the severity of sanctions imposed. Although criminal provisions more often than civil require that the violations be knowingly ("willful") or purposeful, some criminal penalties (including both misdemeanor and felony provisions) are imposed automatically without any requirement that the behavior or omission be culpable or worthy of blame.

Finally, not only offenses but offenders can be classified. Criminal penalties can be asserted against anyone who commits or assists in the commission of the offense--the taxpayer, or an officer, representative, trustee, tax advisor, employee. Civil penalties, however, almost invariably apply only to the taxpayer.

### Changing Statutory Provisions And Their Interpretation

Important statutory changes in both substantive and penalty provisions affect the meaning of statistical series. Three elements of change have altered the nature of offending behavior, and the potential offender pool or "population risk": the change in tax revenue sources, shifts in the coverage of both persons and economic transactions, and the increasing complexity of the law.

This country's history can be divided into three main periods, marked by major changes in federal revenue statutes. Up until the Civil War, revenue was derived almost wholly from external sources, largely custom duties. The financial needs of the Civil War brought about a major and permanent shift in revenue sources. In 1861 and 1862 came the passage of the first continuing internal revenue measures and the establishment of the Internal Revenue Service--then the Office of the Commissioner of Internal Revenue (later the Bureau of Internal Revenue).

The modern tax period was inaugurated with the passage of the federal income tax measures after the approval of the Sixteenth Amendment to the Constitution in 1913, and financial needs of World War II dramatically transformed the system from a tax on the well-to-do to a tax on the masses. Today, an estimated ninety-five percent of the population is required to file, roughly eighty percent are subject to tax on a filed return, and comparable proportions of the total personal income in the country are estimated to be covered by these returns.

Changing statutory requirements affect not only long term, but short term comparisons. During the post World War II period, there have been important variations in population coverage. Even during the last few years, changes in the amount of personal exemptions and in the standard deduction have had an impact on the proportion of the population subject to tax, while increases in the general levels of income have shifted the distribution of taxpayers among income brackets. These changes greatly complicate time series comparisons.

Increasing complexity of the tax statutes accompanied expansion in coverage and rates, and has had both direct and indirect effects upon time series comparisons. Complexity itself adds to the potential for tax violations, yet makes the burden on IRS for proving criminal violations (rather than simple civil errors) more difficult and time consuming.

On the other hand, except for relatively "simple" returns with a standard deduction, today it is difficult to speak of a "correct" return. Varying fact patterns present in individual tax situations make determining the "correct" tax a matter of judgment on which opinions differ among experts.

Accompanying the general increase in the complexity of the tax code, the number of specific penalty provisions and behaviors proscribed has dramatically increased. A related change has been towards increasing severity of physical penalties, though inflation has worked in the opposite direction in reducing the effective amount set for fines. There has also been some movement toward less stringent statutory and judicial standards for "willfulness" in criminal tax cases. Finally administrative and court decisions have had dramatic impacts on the type of offenders prosecuted for tax crimes. Emphasis has shifted back and forth between prosecuting for evasion to deter the general public, and using the tax statute to punish those suspected of other crimes--racketeers, gangsters, organized crime elements, or others deriving substantial income from illegal activities.

Because of these statutory, judicial and administrative changes, information on the components comprising offense offender and enforcement counts is required to sort out changes in offending behaviors from changes in the law and its application.

#### MEASURING TAX NONCOMPLIANCE: ALTERNATIVE DATA SOURCES AND ESTIMATION TECHNIQUES

As in other white-collar offense areas, the tax area lacks "victim reports" on which to base estimates of violation rates. The report examines in depth three direct and three indirect measurement techniques for estimating offense prevalence: (1) the "random investigation" method, (2) self-reports, (3) cross-validation matching third-party reports with self-report data, (4) criterion-based predictive formula from tax data, (5) non-criterion based estimates from monetary data, and (6) residual estimators based upon differences between national income and tax series.

The "Random Investigation" Method  
Law Enforcement Using Survey Sampling Techniques

Detailed tax investigations of a random sample of persons, locations, or events provide one basis for estimating the extent of tax violations. First employed by IRS in its 1948 Audit Control Program, the use of this technique was expanded with the establishment of IRS's Taxpayer Compliance Measurement Program (TCMP) in 1962. Since then twenty TCMP studies have been conducted covering timely payment of taxes, return filing requirements, and correct reporting of tax liability on filed returns. The longest time series of TCMP surveys has been for income tax returns filed by individuals, for which complete TCMP measures of noncompliance are currently available for 1963, 1965, 1969, and 1973 tax years.

Based on income tax audits, the data are subject to the strengths and weaknesses of this measurement source. They afford an estimate of what auditors' findings would be were all returns subject to a tax audit. Since all violations may not be detected and others which are counted may turn out later not to be violations ("over enforcement"), the estimates are subject to both errors of over- and underreporting. Further, standards applied by auditors often lack uniformity--a problem compounded by the very complexity of the law, and the changing statutory provisions.

More attention has recently been given to tax violations not picked up by TCMP, than to over-counting. A recent IRS study of income underreporting estimated that TCMP detected somewhere between two-thirds and four-fifths of taxes not reported where omitted income was from legal activities, but did much worse in detecting unreported taxes from illegal income sources. On the other hand, data from IRS's regular audit program shows that initial audit findings on which TCMP estimates are based overstate by 50 to 70 percent on average final assessments after taxpayer appeals. Despite these serious limitations, however, TCMP is the only systematic data base extant.

TCMP-based estimates were derived from 1963-1973 for three measures of noncompliance: the proportion of returns with tax underreporting errors, the average net tax underreported; and the proportion of total tax liability this underreporting represented. Unadjusted, all three indices show some increase in measured tax noncompliance over the ten-year period. The proportion of returns underreporting tax increased from one in three in 1963 to four in ten in 1973. The proportion of net tax underreported increased from 6 to 6.7 percent, and the average tax change, even after adjusting for inflation, rose 50 percent.

Much of this change, however, was not a real deterioration in compliance. The tax error increase is explained by taxpayer movements into higher income brackets. After adjusting for the taxpayer income distribution and for inflation, the average amount of underreported tax remains roughly unchanged--\$152 in 1963 and \$146 in 1973. Because general reduction in tax rates between 1963 and 1973 lowered average tax liabilities, this unchanging amount of tax error translated into an increasing underreported rate -- up 40 percent over the ten-year period.

However, the average length of a typical TCMP audit nearly doubled during the ten-year period--an increase which might be expected to be associated with improved detection of violations. Thus, it was unclear whether these changes were primarily due to improved detection or declining tax compliance.

Other Direct Measures of Tax Violations:  
Self-Reports and Third-Party Records

Self reports, either from a single source or matched across several sources, provide a second means of estimating tax violations. The simplest indices to derive are measures of the prevalence and seriousness of delinquencies in the payment of assessed taxes where complete counts are available from IRS's computerized Master Files of taxpayer accounts. In fiscal 1978 almost 6 million taxpayers--about 43 per 1,000 returns--were assessed "failure to pay" penalties for delinquent or nonpayment of taxes.

The potential utility of self-reports are expanded when combined (matched) with information reported by third parties. "U.S. employers, financial institutions, and other organizations must disclose to the IRS most of the significant income earned in the United States or abroad by individual and corporate U.S. taxpayers." Statistics are not currently compiled by IRS which would permit estimating components of noncompliance from matching of information documents with filed returns, but IRS has recently increased its efforts in the information matching area.

Data that are available point up the importance of examining overpayment of taxes, as well as underpayment, when measuring compliance since the majority of nonfilers identified through these matching efforts were due refunds. Unfortunately, third-party reports cover sources of income where reporting appears to be most accurate--not those where the information is most needed.

Outside of IRS, efforts have also been made to match information on income available from surveys or governmental records, using either "synthetic" or "exact" matching

techniques. The first large-scale attempt to create three-way "exact match" file from Census, Social Security, and IRS income tax records was jointly undertaken by the Social Security Administration and the Bureau of the Census in the 1973 CPS-IRS-SSA Exact Match Study.

Using this Exact Match file, the General Accounting Office estimated that about 5 million people owing some \$2 billion in income taxes did not file in 1972--representing about 7 percent of taxpayers required to file, and 2 percent of income taxes reported on filed returns. Using alternative assumptions, however, IRS estimated on the basis of the Exact Match File that only \$0.9 billion in taxes were owed, or only \$18 per estimated nonfiler. It concluded that many other nonfilers were simply omitted from the files.

#### Indirect Methods Using Predictive Indices From Monetary and Tax Data

Alternative approaches to measuring tax compliance use indices which, while not measuring tax noncompliance directly, are highly correlated with noncompliance. Most attention has been given to predictive indices based upon: (1) monetary data or (2) tax return information. The first type are based upon the presumption of a relationship between "excess" demand for currency and unreported income; the second are developed from actual empirical relationships between tax return filing information and direct measures of tax underreporting.

These monetary-based indices of tax noncompliance (unreported income) share a number of serious shortcomings. There is no independent means to verify the assumed connection between changes in monetary relationship and income underreporting, since people have many reasons for holding currency or making cash transactions apart from tax evasion. Further, there are a large number of other plausible factors which could explain changes in any of the monetary relationships which have been used. Finally, monetary-based indices of noncompliance are also highly unstable. Small changes in assumptions produce very large changes--often on the order of a hundred billion dollars or more--in the estimates.

In contrast to monetary-based estimators, predictive formulae based upon tax data appear more promising. These indices have the advantage of being empirically linked to direct measures of tax underreporting. Using the data file of tax returns and audit results from the Taxpayer Compliance Measurement Program, IRS discriminant function (DIF) formulas predict tax underreporting from return



characteristics. The formulas are used to screen returns for audit potential, and to determine the geographic allocation of enforcement resources.

The value of DIF-based noncompliance measures critically depends upon the quality of the original TCMP noncompliance measures on which they were based, and the accuracy of the predictive models used. While indices based upon DIF scores offer a potentially valuable supplement to TCMP surveys in assessing compliance, neither the potential strengths nor weaknesses of this approach have been adequately studied.

#### Residual Noncompliance Indicators Comparing National Income and Tax Series

A third indirect measure of tax violations uses the difference (or residual) between two income series: income reported on tax returns, and that based upon national income (NIPA) figures from the Survey of Current Business of the Commerce Department. After translating the data into a common definition of "income" and adjusting for income received by individuals falling below federal income tax filing requirements, the difference between these two aggregate totals gives an estimate of income improperly omitted from tax returns. Estimates can also be prepared by income type. Tax violations, as indexed by this residual estimator, show a very consistent downward trend: from 10% income underreporting after World War II, down to 5% in recent years.

The accuracy of the estimates derived from the residual indicator approach are a direct function of the reliability of the basic Commerce and IRS income statistics, the validity of the adjustments made to ensure comparability between the two income series, and the robustness of the estimates to departures from these standards. Underestimates are introduced because national income (NIPA) series probably underrepresent income earned from informal activities, and normally exclude income from illegal sources. Further, NIPA estimates are not independent from tax data since return information is used in the estimation process. Additional sources of error are introduced by the sizable adjustments required to transform NIPA income figures into "income" as defined for federal income tax purposes. Finally, estimates using the residual method are highly sensitive to small change in underlying statistical series or assumptions. This greatly reduces the utility of estimates derived.

If the estimate for personal income is even one percent too low, the estimate for underreporting would be twenty percent larger; a ten percent underestimate of adjusted

gross income would triple the level of the predicted unreported income on returns. Since differences of one or more percentage points could easily arise from underenumeration, failure to pick up income generated in the so-called "underground" economy outside regular market channels, or inaccuracies in the adjustments, the residual estimator is far from robust.

### Estimates of the Extent of Criminal Tax Violations

Tax violations cover a diverse array of behaviors, most of which have little to do with tax evasion per se. Available information from which estimates of tax crime rates might be developed is quite limited. IRS has devoted a substantial effort to measuring general tax noncompliance, but has placed few resources behind the more difficult problem of estimating criminal violations.

Results from IRS's Taxpayer Compliance Measurement Program offer some insights into the extent of serious federal income tax violations. While currently the best information available, TCMP data have some inherent limitations. Expected sampling variability in any estimate remains sizable, and some information that would be useful was either never collected or not tabulated. Further, some criminal tax violations are difficult to detect, and may not be uncovered in even the more in-depth audits characteristic of TCMP surveys.

On the basis of TCMP information that was tabulated from Phase III, rates of serious income tax violations were estimated by the author for returns filed by individuals. Rates of referral for potential criminal tax evasion averaged 20 per 10,000 returns across 1965, 1969 and 1973 surveys. A referral goes through several steps prior to indictments. Thus a referral for potential criminal tax violation is not conclusive of tax evasion. Based upon the regular referral program, only about five to ten out of 100 audits end up as convictions. These figures imply that the TCMP referrals of 20 per 10,000 might translate into one to two criminal convictions per 10,000 returns. For the more than 87 million individual income tax returns filed last year, these figures imply potential criminal violators numbering somewhere around 10,000.

These figures strike one as unrealistically low. Of course, they exclude criminal nonfilers (roughly 25 percent of current prosecutions) as well as corporate tax offenses for which comprehensive data were not available. Perhaps more important, these figures reflect incidents which would be both detected under present IRS investigation procedures,

and prosecuted under current prosecution standards. For a variety of reasons, many potential criminal cases may be processed instead as civil matters.

Not unexpectedly the rate of criminal violation varies sharply with income source. Such estimates for individuals who receive income from a business, farm, or profession, show violation rates nine times higher than for wage earners or salaried individuals.

At first glance it appears that there are greater opportunities for evasion by businessmen and professionals; however, this rate may also reflect the relative ease with which criminal intent can be shown for violations typical for the two groups--understatement of (business) income and overstatement of deductions (wage-earners).

Were all criminal violations detected and punished, the figures suggest that IRS' Criminal Investigation Division would experience at minimum an estimated twenty-fold increase in cases. Resource requirements to generate and handle such a workload would greatly increase since the domino effect filters down to civil auditors, revenue agents, attorneys at IRS, etc. A twenty-fold increase in IRS enforcement agents (now totaling over 27,000), for example would mean a work force of over a half million. This number would exceed the current total of police officers employed by cities, counties and states.

#### STATISTICAL DATA ON ENFORCEMENT ACTIONS IRS MANAGEMENT INFORMATION SYSTEMS

##### Basic Enforcement Statistics

In addition to statistics and other indirect indices on the extent and seriousness of tax violations, the Internal Revenue Service compiles an extensive array of information on enforcement actions. Separate management information systems -- using different categories and coverage -- are maintained by the three major enforcement divisions within IRS: (a) Examination Division (covering civil audits), (b) Collection Division (covering civil delinquencies in payment or filing), and (c) Criminal Investigation Division (covering criminal investigations and prosecutions).

In fiscal 1978, the Audit Division conducted 2.3 million audits resulting in recommendations of \$5 billion in added taxes and penalties. Collection Division activity resulted in the collection of 2 billion delinquent accounts, involving 3 billion in taxes. One billion delinquent returns were also secured, representing an additional 1 billion in taxes. Almost 9,000 criminal investigations completed by the Criminal Investigation Division, with

criminal prosecution recommended on around 40 percent. A total of 1414 taxpayers was convicted of criminal tax violations.

Other offices and divisions of IRS also may either initiate enforcement action, or become involved in enforcement activity. Each of these has its own separate reporting system.

### Changing Enforcement Trends Over Time

Despite the fact that budgetary resources devoted to our federal tax agency, along with enforcement personnel, have generally kept pace with the growth in total returns and collections during the post World War II period, the enforcement coverage (as well as the proportion of revenue derived from direct enforcement actions) has suffered a relative decline. Audit coverage--the proportion of returns audited--fell during the thirty year period nearly fifty percent from 3.2% to 1.7%; total enforcement coverage (combining enforcement actions of all three IRS divisions) dropped from 6.4% to 3.8%, and the proportion of total dollar revenue collected as a result of direct enforcement actions declined by more than half (6.3% to 2.4%).

Since the volume of tax violations currently exceed available enforcement resources, this decline is not attributable to an absence of potential violations requiring enforcement attention. Instead each enforcement action entailed, on average, more time to complete. The primary culprit appears to be increasing complexity in IRS's workload.

Both the growth in the complexity of tax laws and the movement of taxpayers into higher income and tax brackets have resulted in growing complexity in returns which are filed. The burgeoning complexity has imposed an increasing burden on taxpayers attempting to comply with tax requirements, while at the same time making it more time-consuming and expensive for IRS to carry out its enforcement functions. The apparent result has been a relative drop during the post World War II period in enforcement coverage.

### Detailed Statistics Available on Criminal Cases

The management information system of the IRS Criminal Investigation Division (CID) is a computerized system for collecting case histories, project data, and staff time. This case history structure, coupled with the detailed range of data items collected on each case, makes this data system particularly useful for the analysis of white collar crime enforcement. Further, the availability of a common taxpayer

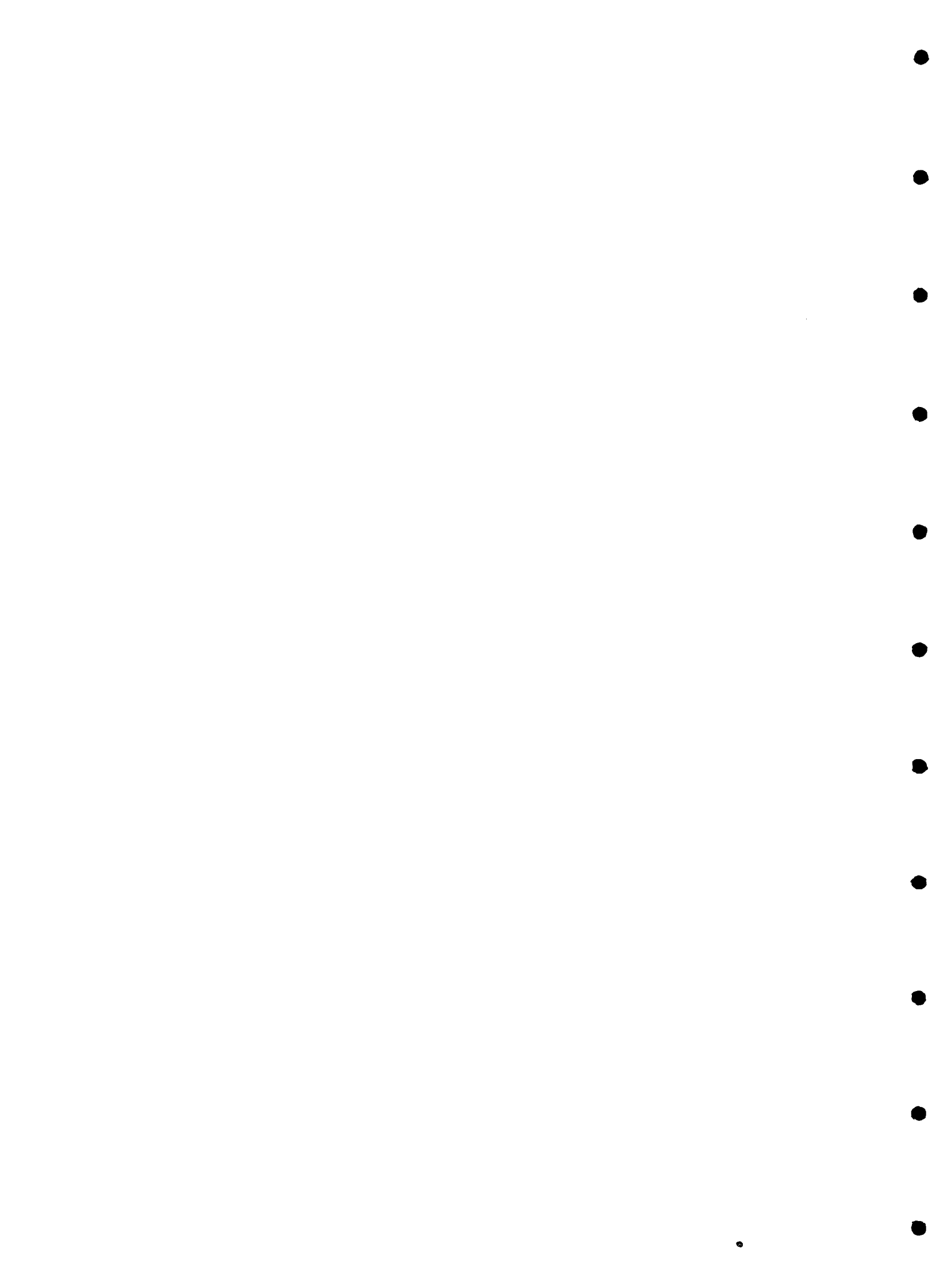
identification number potentially allows matching of cases: (a) within IRS criminal information system files, or (b) within other IRS management information files (e.g., Master Files, Examination and Collection Division files).

A case enters the data system when a new investigation is started and a case number assigned, and is purged from the system at the end of the fiscal year in which a final disposition is shown. During the time the case is in the system, each change of status is entered to record the progression of the case through investigation, review, referral, prosecution and sentencing. Information is also entered on the characteristics of the suspected offender and the nature of the suspected offense.

While the system includes source codes for those referrals which are accepted for investigation, it contains no information on the much larger universe of leads or information items which are disposed of without investigation. A separate reporting system, based in each of the ten Service Centers, covers these records. Further, the system stops following a case after the criminal aspects of the investigation are closed. Unfortunately, no information is included on what civil penalties or taxes are later assessed for the violation, or upon tax compliance by the taxpayer in subsequent years.

A recent large-scale research effort, the Planning Model Study, sought to combine data from criminal investigation division information systems and those maintained by other Service divisions. Discrepancies in data between divisions uncovered problems of accuracy and reliability in the basic data, as well as differences in how and when information is recorded. Other sources show discrepancies between case counts both within the IRS criminal reporting system, and between it and data compiled by IRS Chief Counsel office, the U.S. Attorneys, and the Administrative Office of the U.S. Courts.

Thus, while the structure and detailed breakdown of case investigation histories are exceptionally valuable, more attention to data reliability and consistency both within and across separate management information systems seems warranted.



## CHAPTER I

### TAX OFFENSES AND WHITE-COLLAR CRIME

The starting point in evaluating data sources on federal tax offenses is the statute itself--Title 26 of the United States Code--commonly referred to as the Internal Revenue Code (IRC).

Careful consideration of the statutory basis of any offense is useful for two elemental reasons: First, by defining what acts constitute offenses, the statute provides an initial specification of the information required to assess offense prevalence, and suggests how this information might be classified and aggregated to permit useful comparisons. Second, by setting out the jurisdiction of governmental authority to enforce these provisions, the statute provides a framework for understanding agency operations, and agency data which are generated as a byproduct of these operations.

For white-collar offenses, statutory provisions often take on added significance. The law may lay down an often elaborate structure of required behaviors, and it is frequently the failure to perform these duties that is defined as the violation. To understand what act or omission is being penalized one must usually read the statute as a whole--not simply the penalty provision. Further, since statutory changes appear frequently, and change in any section may have implications for penalty provisions even though these remain unchanged, careful attention to the statute is required if meaningful comparisons are to be made over time.

Finally, an examination of the character of past statutory change can offer guidance on how information should be kept so that adjustment of data categories over time under changing statutory definitions is facilitated.

With this in mind, we begin with a description of the federal tax law today--both its major substantive and penalty provisions. In Chapter II, statutory changes in these tax provisions are examined.

### SUBSTANTIVE REQUIREMENTS OF THE TAX CODE

#### Types of Duties

Federal tax statutes impose four major requirements. For taxpayers three requirements apply. These are:

- (1) The filing of timely returns,
- (2) The proper reporting of tax liabilities, and
- (3) The timely payment of taxes.

For employers an additional duty is imposed:

- (4) Withholding of taxes.

While there are other requirements beyond these four, the essentials of our federal tax structure can be simply stated: to require persons to report and pay on time their correct federal taxes through a self-assessment system. To implement this objective, the system incorporates withholding of many taxes at the source, along with information reporting of many other income transfers.

#### Types of Taxes and Revenue Generated

These duties cut across different types of taxes imposed under the current Internal Revenue Code. Five general classes of internal taxes are exacted: income, estate, gift, employment and excise taxes. Table 1.1 presents a detailed breakdown of types of tax and revenues received by IRS during the last three fiscal years.

While individual and corporate income taxes, along with social security taxes, lead the list as revenue producers, the largest variety of separate taxes is found in the excise area. In addition to excises on alcohol as a product, there are occupational excise taxes on retailers, wholesalers, manufacturers and brewers. Excises on tobacco products include not only taxes on cigarettes, cigars and tobacco, but on cigarette papers and tubes. Manufacturers' excises are imposed on gas, oil, tires, and motor vehicles. Less known are excises on firearms, shells and cartridges, and even on bows and arrows. Excises also are imposed on the transportation of messages, people, and property. Excises are used not only to generate revenue, but sometimes as a regulatory device. Thus, for example, we currently find excises imposed on wagering receipts and on wagering as an occupation, as well as on coin-operated gambling devices, and stills.

Despite the lengthy list of specific excises, in recent years such taxes account for only five percent of total internal revenue collections. As shown in Table 1.2 and Figure 1.1 the principal source of federal revenue is from income taxes which account for two-thirds of all collections. Second in importance is federal employment taxes which account for an additional one-fourth of internal



TABLE 1.1

INTERNAL REVENUE COLLECTIONS BY SOURCE, FISCAL YEARS 1976-1978  
(dollars in thousands)  
(Continued)

Sources of Revenue	Years		
	1976	1977	1978
Miscellaneous excise taxes--continued			
Wagering taxes:			
Occupational tax, \$500 per year	965	776	1,048
Wagers, 2 percent of amount waged	4,962	6,632	6,637
Use tax on highway vehicles weighing over 26,000 pounds, \$3 per 1,000 pounds per year (installment privileges permitted)	212,793	226,209	237,603
Use tax on civil aircraft, \$25 per year with an additional 2 cents per pound on nonturbine engine powered over 2,500 or 3.5 cents per pound on turbine engine powered	21,188	22,788	22,609
Adulterated butter and filled cheese (imported and domestic) process or renovated butter and imported oleo margarine	1		
Firearms transfer and occupational taxes	313	589	704
Interest equalization	1,128	473	
Foreign insurance	25,371	38,917	51,909
Exempt organizations, total	61,823	80,631	92,419
Net investment income, 4 percent	59,538	78,592	83,950
Self dealing, 5 percent on self-dealer, lesser of \$10,000 or 2.5 percent on foundation manager	291	212	6,110
Excess business holdings, 5 percent on foundation	9	3	*
Taxable expenditures, 10 percent on foundation, lesser of \$5,000 or 2.5 percent on foundation manager	75	103	79
Failure to timely file certain information returns, \$10 per day up to a maximum of \$5,000	893	912	1,014
Failure to distribute income, 15 percent of undistributed income	915	809	1,265
Investments which jeopardize charitable purpose, 5 percent on foundation, lesser of \$5,000 or 5 percent on foundation manager	102	*	2
Employee pension plans, total	920	2,067	2,990
Excess contributions to an IRA, 6 percent of excess amount	712	1,732	2,409
Tax on underdistributions from an IRA, 50 percent of underdistribution	-	16	46
Prohibited transactions, 5 percent of prohibited transaction	208	216	298
Tax on excess contributions to an HR -10 Plan, 5 percent of excess amount	-	1	18
Failure to meet funding standards, 5 percent of funding deficiency	*	25	157
Tax on excess contributions to custodial account, 6 percent of excess amount	-	74	61
Failure to file statement required by section 6047 or 6058, \$10 per day up to \$5,000	-	2	1
Other	-17	528	713
Unclassified excise taxes	344,853	313,118	196,182

SOURCE: Internal Revenue Service Annual Reports.

TABLE 1.1

INTERNAL REVENUE COLLECTION BY SOURCE, FISCAL YEARS 1976-1978  
(dollars in thousands)  
(continued)

Sources of Revenue	Years		
	1976	1977	1978
Imported cigars, cigarettes, cigarette papers and cigarette tubes and cigarette tubes (collected by Customs, rates same as domestic)	1,850	2,460	3,147
Miscellaneous tobacco	71	1	*
Cigarette papers and tubes, papers one-half cent per 50; tubes 1 cent per 50	1,330	1,393	1,291
Manufacturer's excise taxes, total	5,486,106	6,068,682	6,555,681
Gasoline, 4 cents per gallon	4,125,674	4,322,077	4,444,484
Lubricating oil, etc., 6 cents per gallon	92,851	100,929	105,227
Tires (wholly or in part of rubber), inner tubes, and tread rubber:			
Tires, highway type, 10 cents per pound, other 5 cents per pound except laminated tires (other than type used on highway vehicles), 1 cent per pound	675,589	737,667	788,707
Inner tubes, 10 cents per pound	28,803	30,722	33,251
Tread rubber, 5 cents per pound	25,725	24,569	24,354
Motor vehicles, chassis, bodies, parts and accessories:			
Passenger automobiles, chassis, bodies, etc., 7 percent	17	-2,637	77
Trucks, and buses, chassis, bodies, etc., 10 percent	321,848	598,084	817,228
Parts and accessories for trucks and buses, 8 percent	124,045	159,287	181,474
Pistols and revolvers, 10 percent	11,910	13,352	15,223
Fishing rods, creels, etc., 10 percent	20,152	25,416	28,351
Bows and arrows, 11 percent	4,716	4,376	6,794
Firearms (other than pistols and revolvers), shells and cartridges, 11 percent	54,211		
Firearms (other than pistols and revolvers), 11 percent		32,554	34,499
Shells and cartridges, 11 percent		22,286	23,543
Black lung			52,464
Other	565	2	4
Retailer's excise taxes, total	417,250	480,602	523,677
Noncommercial aviation gasoline, 3 cents per gallon	10,295	10,390	10,954
Noncommercial aviation fuel other than gasoline, 7 cents per gallon	27,814	30,014	31,289
Diesel and special motor fuels, 4 cents per gallon (in some instances 2 cents per gallon)	379,125	440,190	481,427
Other	15	8	8
Miscellaneous excise taxes, total	3,093,895	3,165,171	3,325,780
Telephone and teletypewriter exchange services	1,837,362	1,708,778	1,656,736
Transportation of persons by air, 8 percent (which was increased from 5 percent effective July 1, 1970)	793,597	957,251	1,110,613
Transportation of property by air, 5 percent	45,400	55,147	64,011
Use of international air-travel facilities, \$3 per person	52,979	58,296	70,488
Sugar, approximately half-cent per pound	28,820	14	
Narcotics and marihuana, total	103		
Narcotics	3		
Marihuana	100		
Coin-operated gaming devices, \$250 per device per year	6,187	6,563	7,300

TABLE 1.1  
INTERNAL REVENUE SERVICE COLLECTIONS, BY SOURCE 1976-1978  
(dollars in thousands)  
(continued)

Sources of Revenue	Years		
	1976	1977	1978
Excise taxes--continued			
Wines, cordials, etc., taxes, total	175,482	180,676	189,535
Imported (collected by Customs, rates same as domestic)	21,546	27,335	33,676
Domestic (Still- 17 cents, 67 cents, \$2.25 per wine gallon: sparkling wines, wines, \$3.40 artificially: carbonated wines, \$3.40: liqueurs, cordials, \$1.92)	150,276	152,573	155,818
Occupational taxes:			
Retail dealers in wines or in wines and beer, \$5 <sup>4</sup> per year	3,366	747	40
Wholesale dealers in wine or in wines and beer, \$225 per year	294	41	*
Beer taxes, total	1,332,304	1,398,487	1,423,614
Imported (collected by Customs, rates same as domestic)	16,280	22,811	26,603
Domestic, \$9 per barrel of 31 gallons	1,313,706	1,372,753	1,394,137
Occupational taxes:			
Brewers:			
Less than 500 barrels, \$55 per year	*	1	1
500 barrels or more, \$110 per year	13	12	13
Retail dealers in beer, \$24 per year (includes limited retail dealer in distilled spirits, wine and beer, \$2.20 and \$4.50 per month)	1,825	2,280	2,237
Wholesale dealers in beer, \$123 per year	480	640	624
Tobacco taxes, total	2,487,894	2,398,501	2,450,913
Cigarettes, total	2,434,831	2,357,519	2,408,425
Small (Class A), \$4 per thousand	2,434,812	2,357,500	2,408,415
Large (Class B), \$8.40 per thousand except if over 6.5 inches long \$4 per thousand for each 2.75 inches or fraction thereof	18	19	10
Prepayments	1	-	*
Cigars, total	49,812	37,128	38,050
Large cigars, total	47,958	35,681	36,794
Class A (Retailing at not over 2.5 cents each), \$2.50 per thousand	8	132	6
Class B (Over 2 cents, not over 4 cents each), \$3 per thousand	946	331	-
Class C (Over 4 cents, not over 6 cents each), \$4 per thousand	4,756	1,528	-
Class D (Over 6 cents, not over 8 cents each), \$7 per thousand	9,325	3,960	1
Class E (Over 8 cents, not over 15 cents each), \$10 per thousand	17,163	5,904	*
Class F (Over 15 cents, not over 20 cents each), \$15 per thousand	10,888	4,248	*
Class G (Over 20 cents each), \$20 per thousand	4,871	1,938	4
Wholesale price not more than \$235.294 per thousand, 8.5 percent	-	16,692	33,669
Wholesale price more than \$235.294 per thousand, \$20 per thousand	-	949	3,113
Small cigars, 75 cents per thousand	1,829	1,423	1,225
Prepayments	25	24	30

TABLE 1.1

INTERNAL REVENUE COLLECTIONS BY SOURCE, FISCAL YEAR 1976-1978  
(dollars in thousands)

Sources of Revenue	Years		
	1976	1977	1978
GRAND TOTAL, ALL SOURCES	302,519,792	358,139,417	399,776,389
Income taxes, total	205,751,753	246,805,067	278,438,289
Individual income taxes, total	158,968,797	186,755,263	213,058,144
Corporate income taxes, total	46,782,956	60,049,804	65,380,145
Regular	46,739,120	60,015,704	65,344,150
Exempt organization business tax	43,836	34,100	35,966
Employment taxes, total	74,202,853	86,076,316	97,291,653
Social Security	70,983,718	82,257,212	92,630,408
Railroad retirement, total	1,656,384	1,908,803	2,019,231
Unemployment insurance	1,562,752	1,910,302	2,642,014
Estate taxes	4,875,735	5,649,460	5,242,080
Gift tax	431,730	1,775,866	139,419
Excise taxes, total	17,257,720	17,832,707	18,664,949
Alcohol taxes, total	5,427,722	5,406,633	5,612,715
Distilled spirits, total	3,919,935	3,827,460	3,999,566
Imported (collected by Customs, rates same as domestic)	682,794	689,815	702,336
Domestic, \$10.50 per proof gallon or wine gallon when below proof	3,198,990	3,103,140	3,259,100
Rectification, 30 cents per proof gallon	29,123	18,326	21,467
Occupational taxes:			
Nonbeverage manufacturers of spirits, \$25, \$50, \$100, per year	82	93	106
Rectifiers:			
Less than 20,000 proof gallons, \$110 per year	3	4	5
20,000 proof gallons or more, \$220 per year	17	19	25
Retail dealer (distilled spirits, wines, and beer), \$54 per year	8,104	14,713	15,351
Wholesale dealer (distilled spirits, wines and beer), \$255 per year	517	1,071	1,071
Manufacturers of stills, \$55 per year	3	5	4
Seizures, penalties, etc.	246	272	99
Stills or condensers, \$22 each	2	2	1

TABLE 1.2

NET INTERNAL REVENUE COLLECTION  
BY MAJOR CATEGORIES  
FISCAL YEAR 1978  
(Dollars in Thousands)

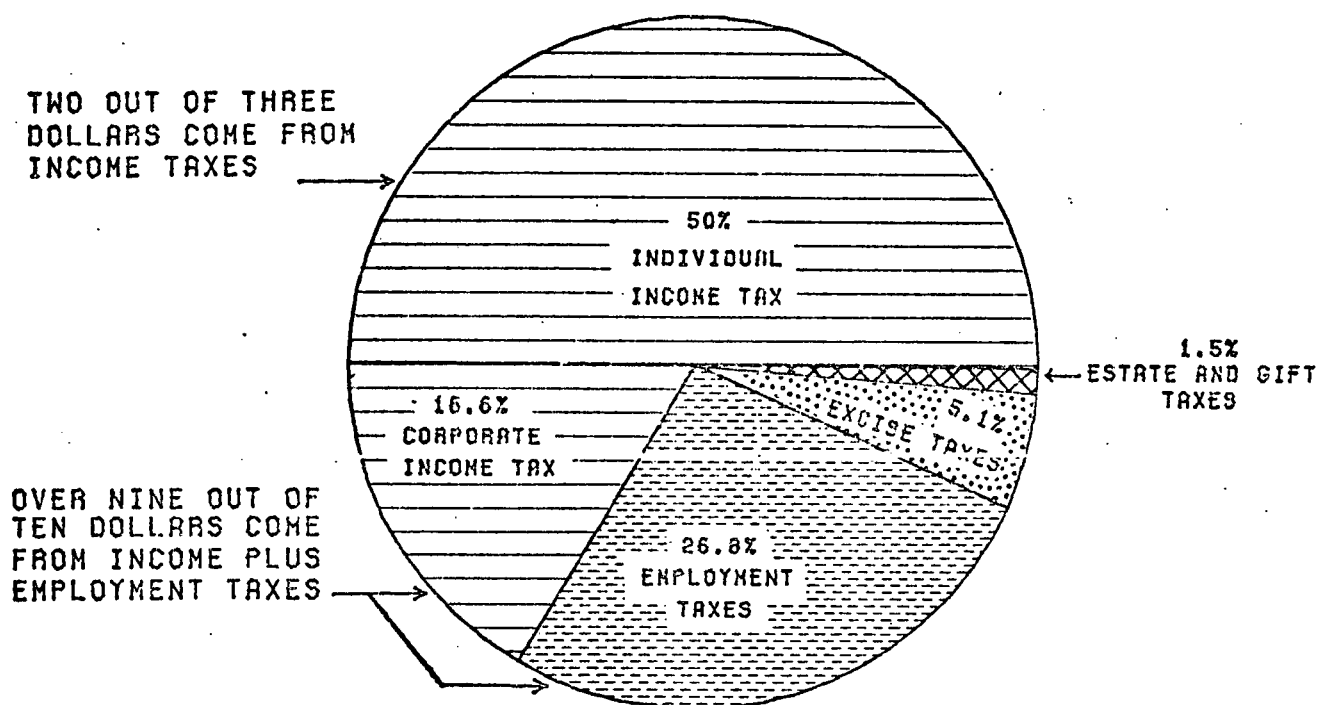
Major Tax Categories	Gross Collections	Refunds <sup>1</sup>	Net Collections	
			Amount	Percent of Total
Income taxes:				
Individual	213,058,144	32,950,536	180,107,608	50.0
Corporate	65,380,145	5,428,280	59,951,865	16.6
Subtotal	278,438,289	38,378,816	240,059,473	66.6
Employment	97,291,653	560,940	96,730,713	26.8
Excise	18,664,949	290,318	18,374,631	5.1
Estate and Gift	5,381,499	96,097	5,285,402	1.5
Grand total	399,776,389	39,326,170	360,450,219	100.0

<sup>1</sup>Does not include interest paid on refunds.

SOURCE: Commissioner of Internal Revenue. 1978 Annual Report, p. 10.

Figure 1.1

# SOURCES OF NET INTERNAL REVENUE COLLECTION FISCAL 1978



revenues. Combined, income and employment taxes account for more than 90 percent of federal tax collections. Least important as a revenue source are estate and gift taxes. Together they account for less than two percent of internal revenue.

### Population and Activities Covered

The payment of duties and taxes falls upon various segments of the population. Virtually everyone receiving income above certain minimum levels is subject to the reporting and payment of federal income taxes. Approximately ninety-five out of every hundred adult men and women in the country file income returns, and a similar proportion of all children in the country are reported as dependents. While some returns reporting no taxable income are filed to obtain refunds of withheld taxes, approximately three-fourths of the population is subject to both federal tax filing and payment requirements. It is estimated that over ninety percent of total U.S. personal income is reflected on individuals' tax returns.<sup>1</sup>

Tax requirements also apply to nonnatural persons such as businesses, corporations, associations, partnerships, trusts. As employers, employees, officers, agents, partners, trustees, members, etc., almost everyone is subject to some--and often numerous--tax requirements. One index of these cumulative duties is the sheer volume of tax forms and reports now required. Out of a total of more than two billion submissions required by all federal agencies, over 70 percent are tax connected--or seven tax-related submissions for every man, woman and child in the country (Federal Paperwork Jungle, 1965; Kaufman, 1977).

Few economic transactions fail to be influenced by, or subject to, some federal tax requirement--from starting a business, building or expanding one's establishment or plant, hiring or firing employees, developing or furnishing a new product or service, or discontinuing a business. Few large economic transactions occur where serious thought is not given to getting an advance ruling from the IRS on the tax consequences of the proposed transaction (Senate Hearings, 1974;10-15). Also many personal and nonbusiness activities have tax consequences--from birth (a new tax dependent), marriage (rules for married vs. single persons), buying a home (deductibility of mortgage interest), to death (estate taxes).

---

<sup>1</sup>See later footnote 3 in Chapter II concerning qualifications in estimates of population covered by returns, and discussion of national income and product account limitations for estimating personal income in Chapter III.

This pervasive impact, as well as the complexity built into a code and set of regulations stretching 10,000 pages, have spawned a new industry and profession of tax consulting--ranging from the Wall Street firms of tax attorneys and CPA's to the neighborhood H&R Block outlets. Clearly, as Justice Jackson in Dobson v. Commissioner, 320 U.S. 489, aptly noted: "No other branch of the law touches human activities at so many points."

#### STATUTORY PENALTY PROVISIONS FOR TAX VIOLATIONS

Each of the diverse and wide-ranging duties is subject to potential violation. To ensure compliance, the Internal Revenue Code (along with related provisions) sets forth statutory penalties. The violations as defined in the Code provides a starting point for assessing the potential range of offenses and the type(s) of indexes of tax violations or noncompliance which could be developed.

Which offenses one includes and how one structures these indices, depends upon one's purpose. Here our focus is on "white-collar crime." As others have noted (Edelhertz, 1970:3): "The term 'white-collar crime' is not subject to any clear definition." Under Sutherland's classic definition (1949:3), for example, most tax offenses would not be considered white-collar crime since they are neither restricted to persons of high social status, nor necessarily committed in the in the course of [one's] occupation." In contrast, under the definition proposed by Edelhertz (1970) and recently enacted as part of the Justice System Improvement Act of 1979, it would appear that all tax violations, including simple mathematical errors might be classed as white-collar crime since no distinction is made by Edelhertz on the basis of seriousness among "illegal acts."<sup>2</sup> A different subset of tax violations for that

---

<sup>2</sup>"... the term will be defined as an illegal act or series of illegal acts committed by nonphysical means and by concealment or guile, to obtain money or property, to avoid the payment or loss of money or property, or to obtain business or personal advantage." Herbert Edelhertz, The Nature, Impact and Prosecution of White-Collar Crime, prepared by the National Institute of Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration, ICR 70-1, (Washington, D.C.: U.S. Government Printing Office, 1975), p. 3.



implicit in the definition used by Sutherland or Edelhertz would be included under the definition of white-collar crime purposes by Biderman and Reiss.<sup>3</sup>

I will defer further discussion of how what tax offenses we may wish to include in a statistical reporting system on white-collar crime until the conclusion of this chapter, after we have had a chance to examine the range of behaviors which fall under the general heading of tax violations.

### Range of Penalty Provision

There are nineteen major criminal provisions in the Internal Revenue Code<sup>4</sup> and twenty-nine criminal provisions within the U.S. Criminal Code with direct applicability to tax violations considered here. In addition, there are a number of very specialized criminal provisions, including violations involving stamps, white phosphorous matches, liquor or tobacco, petroleum products, filled cheese, oleomargarine or adulterated butter, cotton futures, and collections of foreign items.

Civil penalties also play a major role in controlling tax violations. This is characteristic of many white-collar and regulatory areas (Bequai, 1978; Edelhertz, 1977; Shapiro, 1973). In the tax area, both civil and criminal penalties are available for most violations; the general policy of the IRS (see Internal Revenue Manual Parts IV, V and IX) is, wherever applicable, to apply both civil and criminal penalties.

---

<sup>3</sup>"White-collar crimes for the purpose of this study are defined as crimes involving use of an offender's position of significant power, influence, or trust in the legitimate economic or political institutional order for the purpose of illegal gain." Albert D. Biderman and Albert J. Reiss, Jr., "Definitions and Criteria for a Selection of Prospective Federal Sources of White-Collar Crime Data," BSSR 0003-70, (Washington, D.C.: Bureau of Social Science Research, 1979), p. 3.

<sup>4</sup>These code provisions exclude four applicable to IRS employees, and those dealing primarily with alcohol, tobacco or firearms. Those sections included are, for Title 26: 7201, 7202, 7203, 7204, 7205, 7206(1), 7206(2), 7206(4), 7207, 7210, 7212(A), 7212(B), 7215, 7216, 7231, 7232, 7261, 7262, 7270; for Title 18: 2, 3, 4, 111 (with and without weapons), 201, 285, 286, 287, 371 372, 494, 495, 1001, 1002, 1084, 1114, 1501, 1503, 1510, 1621, 1622, 1623, 1952, 1953, 1955, 2071(A), 2071(B), 2231, 2233.

The number of civil penalty provisions depends upon one's definition of a 'penalty,' since the line between a "tax" and a "penalty" is indistinct. Many types of monetary sanctions are found in the tax code; few are referred to as monetary penalties. Many of these sanctions share the common purpose of seeking to deter or punish certain acts or omissions; sometimes some presumed culpability is required for their imposition. Many of the "additions to tax" and "surtaxes" are more substantial in the amount than many sanctions that are statutorily labeled as penalty sections. Hence, since both taxes and penalties are typically assessed and collected in the same manner, the dividing line is not always clear and judgments vary.

Following the usage adopted in the 1975 study of civil tax penalties by the Administrative Conference of the United States (S.Doc. 94-266), 'additions to tax' are treated here as penalty provisions but not provisions labeled as taxes or surtaxes, even where some culpability is required for the tax to be imposed.<sup>5</sup> Forfeitures have also been excluded.

---

<sup>5</sup>It is important to caution, however, that this definition does exclude some provisions which courts have from time to time construed as penalty provisions. (Since penalty provisions require a narrower construction than ordinary tax provisions, Commissioner v. Acker, 361 U.S. 87 (1955), the government has generally resisted treating provisions as penalties and a fair amount of litigation has ensued on the classification issue.) Two provisions excluded under this standard--the accumulated earnings tax and the personal holding company tax (Secs. 531-537 and Secs. 541-547, respectively)--illustrate the definitional problem. In addition to often being judicially construed as penalty provisions, these sections impose financial sums frequently more severe than that imposed civilly for tax fraud, or require some degree of culpability for their imposition. In the case of the personal holding company tax, the amount imposed can result in a "tax" greater than a taxpayer's total taxable income, Parkside, Inc. v. Commissioner, (571 F.2d. 1092). The hefty accumulated earnings tax is imposed on all corporations "formed or availed of for the purpose of avoiding the income tax with respect to its shareholders . . . by permitting earnings and profits to accumulate instead of being divided or distributed." (IRC Sec. 532) The statute further provides at Sec. 533: "The fact that the earnings and profits of a corporation are permitted to accumulate beyond the reasonable needs of the business shall be determinative of the purpose to avoid the income tax with respect to shareholders, unless the corporation by the preponderance of the evidence shall prove to the contrary." The "culpability" is thus in engaging in prohibited forms of tax avoidance. While this is one of the oldest of this type of

Though properly considered as penalties, they are chiefly employed in alcohol, tobacco and firearms enforcement which since 1972 has been under the separate jurisdiction of the Bureau of Alcohol, Tobacco and Firearms in the Treasury Department.

Finally, by definition I have excluded "interest" from consideration as a penalty provision. While some, including a Task Force Report of the President's Commission on Law Enforcement and Administration of Justice (1967), refer to interest as one of the range of tax penalties imposed, it will be treated it as simply payment for the use of moneys owed to the government.

Even with this narrow definition, there are over 50 provisions of civil penalty in the tax code alone. Together with criminal sanctions, these add up to over one hundred separate penalty provisions for tax violations. A listing of the Code sections, with a brief description of the violations and the penalty statutorily imposed, is provided in Appendix Tables A.1 and A.2. Not all of the provisions will eventually end up within the definition of "white-collar crime." To determine which to include, we turn to an analysis of these provisions. To guide our examination, penalty provisions are compared along three major dimensions: (1) the type and severity of sanctions imposed (including procedures for their imposition); (2) the content, type and culpability of behavior proscribed; and (3) the type of offender subject to sanction. Stated more simply, violations can be classified according to the type of sanction, the offense, and the offender.<sup>6</sup>

## Classifying Sanctions

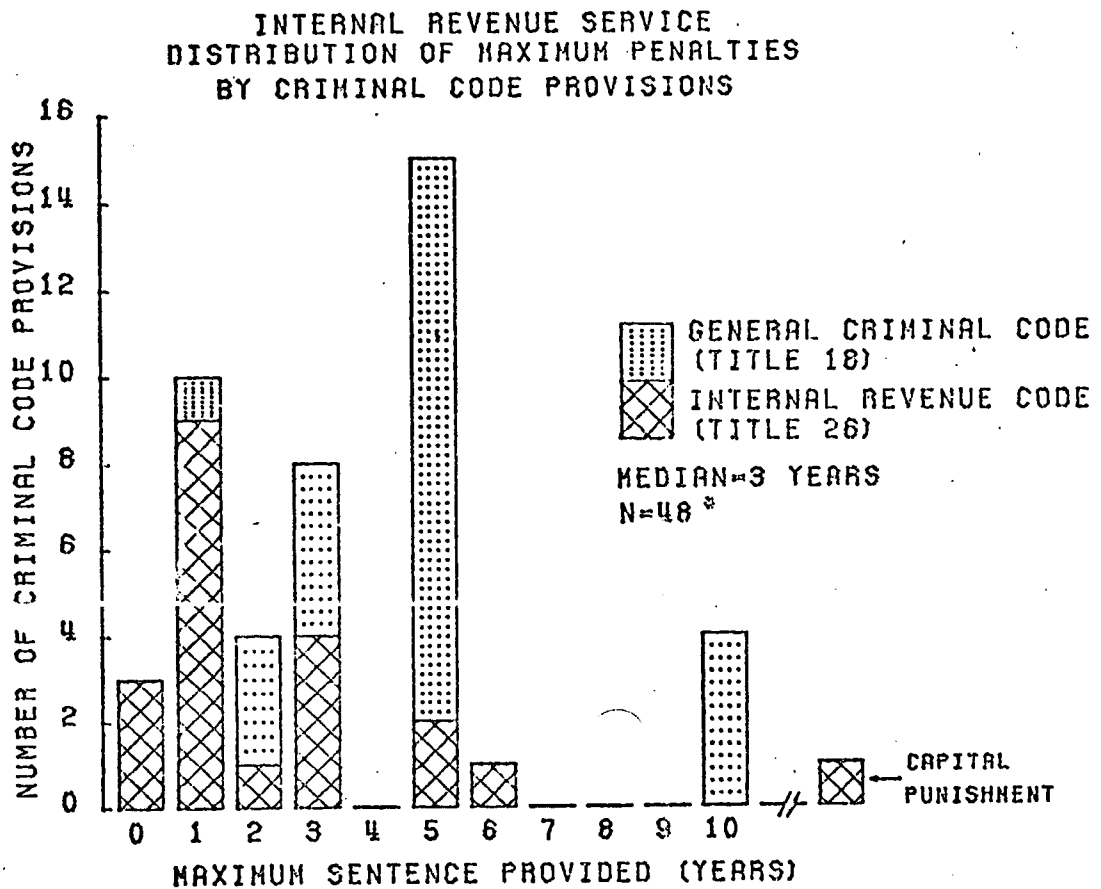
### A. The Severity of Penalties

The severity of the sanctions imposed provide one basis for classifying penalty provisions. Sanctions include both physical (incarceration) and financial penalties. Figure 1.2 shows the distribution of maximum sentences that can be imposed for tax offenses. Of forty-eight separate code provisions, only three (26 U.S.C. 7261, 7262, 7270) do not provide for a prison sentence. Except for killing an internal revenue officer (a capital offense under 18 U.S.C. 1114), criminal penalties range up to a five-year

---

<sup>6</sup>In the tax area, classifying violations by victim has limited utility. For the most part, the 'victim' is the general public. It is the public who collectively must bear a greater tax burden because of the failure of others to meet their obligations.

Figure 1.2



\* MAXIMUM PENALTIES ARE VARIABLE UNDER TWO CODE SECTIONS FOR SENTENCE TIME AND UNDER FOUR CODE SECTIONS FOR FINES. THESE ARE EXCLUDED FROM THE GRAPHS

SOURCE: TITLE 18 AND 26 OF THE UNITED STATES CODE

maximum sentence on each count of specific tax violation under the Internal Revenue Code, and up to a ten-year maximum prison sentence under the more general provisions of the criminal code (Title 18 of the United States Code). The median imposed is three years, with a median maximum sentence under the tax code of one year and under the general criminal provisions of five years.

These are, of course, maximum terms and need not be imposed in any specific case. Over the last five years, the proportion of criminal tax sentences involving prison time has remained fairly constant, around 44 percent (Table 1.3 and Figure 1.3). Reported figures vary inexplicably, by source, however. The forty-four percent figure is based on IRS data, while the figures reported by the Administrative Office of the U.S. Courts (Table 1.4) show fewer than a third receiving prison terms. Tax offenders generally receive prison terms less frequently (and with less average sentence time) than the average federal offender.

The proportion sentenced to prison also varies by tax offense. Table 1.5 gives the proportion sentenced to prison by major code sections for the last two fiscal years. While the proportion sentenced shows only a low relationship with the maximum statutory time permitted, persons convicted of committing some offenses have much lower probabilities of receiving prison terms (down to 15 to 20%) while those who violate others range 50 percent or higher. The lowest rate of imprisonment has been under Sec. 7215, applicable to employer failure to pay withholding taxes in a timely manner. With 214 convictions, only 38 persons (less than 1 in 5) received prison terms. Added in 1958, the penalty can be automatically imposed even if the employer was without funds. Perhaps the low prison rate reflects extenuating circumstance sometimes accompanying this offense. At the other end of the continuum, offenders guilty of tax evasion (IRC 7201), failure to file (IRC 7203) and false statements (IRC 7205; 18 287) received prison terms in half to two thirds of the cases.

In financial terms, however, civil penalties often appear to be much more severe than criminal ones, as the figures in Table 1.6 and Figure 1.4 show. This is true for three reasons: First, most civil penalties are ad valorem. That is, the amount of the penalty is directly proportional to the amount of tax underpayment. Thus, while the maximum penalty under criminal statutes is limited to \$10,000 with a median of \$5,000, civil penalties have no ceiling. For example, civil fraud penalties for corporate taxpayers averaged over \$30,000 last year, while the penalties and added tax amounted to over \$90,000. Second, the base on

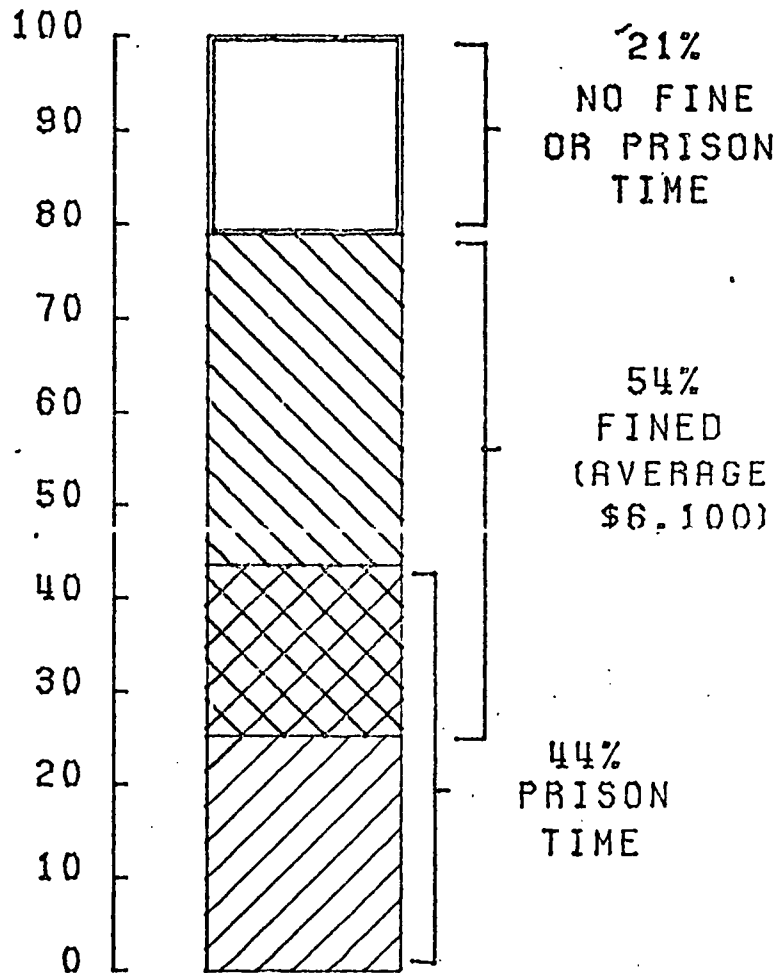
TABLE 1.3  
INTERNAL REVENUE SERVICE  
CRIMINAL TAX SENTENCES, 1974-1978

Year	No. Sentenced	Prison Time		Fine			Both Prison and Fine		No Fine or Prison Time	
	No.	No.	%	No.	%	Ave. \$	No.	%	No.	%
1974	1,184	503	43	686	48	\$7,500	219	19	214	18
1975	1,186	485	41	639	54	4,800	18	15	259	22
1976	1,172	486	41	619	53	6,100	206	18	260	22
1977	1,532	685	45	786	51	6,500	288	19	349	23
1978	1,446	681	47	779	54	5,600	306	21	290	20
5 Year Average	6,520	2,840	44	3,509	54	6,100	1,200	8	1,372	21

SOURCE: Unpublished internal computer tabulations, IRS Criminal Investigation (formerly Intelligence) Division.

Figure 1.3

# CRIMINAL TAX CONVICTIONS INTERNAL REVENUE SERVICE



SENTENCES  
1974-1978

TABLE 1.4

SENTENCING OF DEFENDANTS CONVICTED  
IN U.S. DISTRICT COURTS, 1974-1978

	1978	1977	1976	1975	1974
Total	36,505	41,468	40,112	37,433	34,699
Prison	17,426	19,613	18,478	17,301	16,789
Percent	47.7%	47.3%	46.1%	46.2%	48.4%
ave. sent. (months)	34.1m	45.1m	47.2m	45.5m	42.1m
Income Tax Fraud	1,215	1,489	1,157	1,158	1,128
Prison	483	539	340	367	392
Percent	39.8%	36.2%	29.4%	31.7%	34.8%
Ave. sent. (months)	7.7m	10.1m	15.4m	12.7m	12.7m
All Other Fraud	3,553	3,320	2,534	1,911	1,602
Prison	1,283	1,236	894	576	535
Percent	36.1%	37.2%	35.3%	30.1%	33.4%
Ave sent. (months)	20.5m	24.2m	25.5m	24.8m	24.0m
Larceny & Theft	4,698	4,741	4,207	3,964	3,125
Prison	1,979	1,911	1,624	1,571	1,228
Percent	42.1%	40.3%	38.6%	39.6%	39.3%
Ave. sent. (months)	23.7m	31.1m	31.9m	35.0m	28.9m
Embezzlement	1,822	1,921	1,650	1,605	1,443
Prison	466	506	289	285	275
Percent	25.6%	26.3%	17.5%	17.8%	19.1%
Ave. Sent (months)	13.4m	17.3m	22.4m	22.1m	14.6m
Forgery/Counterfeit	3,284	4,115	4,138	4,432	3,700
Prison	3,284	2,176	2,039	1,953	1,725
Percent	52.2%	52.8%	49.3%	44.1%	46.1%
Ave. sent. (months)	24.0m	32.7m	37.9m	35.0m	32.4m

SOURCE: Administrative Office of the U.S. Courts, Annual Report of the Director, 1974-1978 (1974-1977, reprinted in Sourcebook of Criminal Justice Statistics, 1975-1978, U.S. Department of Justice.



TABLE 1.5

## PRISON SENTENCES BY CODE SECTION

Criminal Offense		FY 1978			
Type	Section	Number		% Prison	Max. Statutory Sent.
		Sentenced	Prison		
Tax evasion	26 7201	373	204	54.7	5
Failure to file	26 7203	384	180	46.9	1
False state. (employees)	26 7205	66	34	51.5	1
False documents	26 7206(1)	212	80	37.7	3
False doc. (aiding)	26 7206(2)	59	33	55.9	3
False statements	26 7207	37	9	28.1	1
Withholding payment	26 7215	104	15	14.4	1
False statements	18 287	111	74	66.7	5
	Other	105	52	49.5	--
	Total	1,446	681	47.1	--
FY 1977					
Tax evasion	26 7201	388	195	50.3	5
Failure to file	26 7203	420	208	49.5	1
False state. (employees)	26 7205	57	33	57.9	1
False documents	26 7206(1)	242	100	41.3	3
False doc. (aiding)	26 7206(2)	96	27	28.1	3
False statements	26 7207	33	6	18.2	1
Withholding payment	26 7215	110	23	20.9	1
False statements	18 287	50	30	60.0	5
	Other	136	63	46.3	--
	Total	1,532	685	44.7	--

SOURCE: Unpublished internal computer tabulations, IRS Criminal Investigation Division (formerly Intelligence Division).

TABLE 1.6

COMPARISON OF CRIMINAL  
AND CIVIL FINANCIAL PENALTIES  
FISCAL 1978

	Total		Average \$'s (thousands)	
	Number	\$ (thousands)		
		Fine or Penalty	Penalty Plus Added Tax	
Criminal Sentences				
All	1,446	\$4,400	na <sup>1</sup>	\$3,043
With fines only	779	4,400	na <sup>1</sup>	5,648
Civil Fraud				
Assessments				
Income tax				
Individual	6,429	\$31,868	\$95,604	\$4,957
Corporate	516	15,858	47,574	30,733
Estate & gift tax	15	117	351	7,800
Excise tax	171	331	993	1,936
Employment tax	1,833	2,675	8,025	1,459
Other	49	44	132	898
Total Civil				
Fraud	9,013	\$50,893	\$154,679	\$5,647
				\$16,940

<sup>1</sup>While criminal convictions require neither proof of amount of additional taxes due (if any), or impose tax liabilities as part of the sentence, available statistics suggest that criminal prosecutions involve offenses several times the size on average of civil fraud cases:

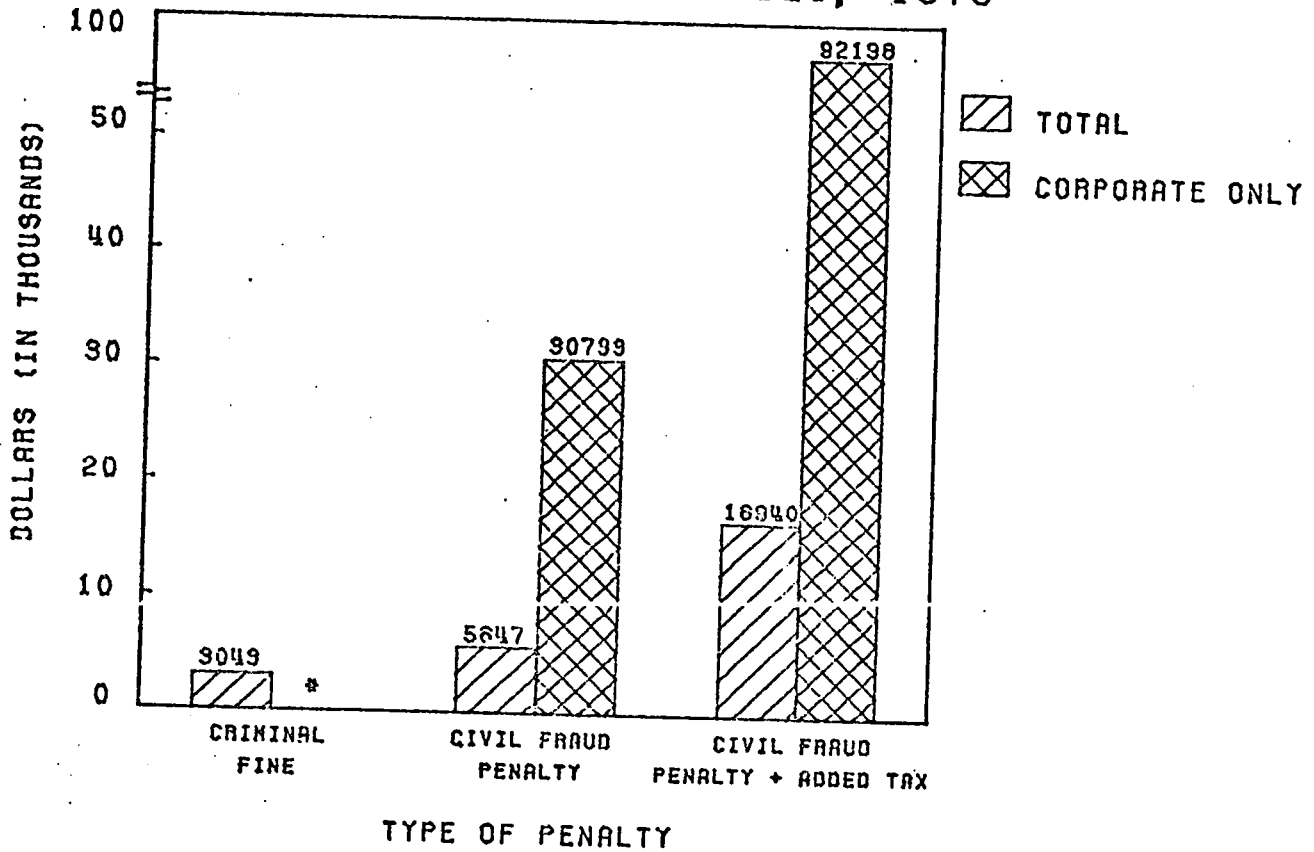
	Average Proposed Tax Deficiency Plus Penalties	
	Number	Dollars
Cases recommended for criminal prose- cution, 1978		
Total	3,439	\$199,885
Corp.	380	\$543,258

(Criminal Investigation Division internal statistics; see Chapter 6, however, for evaluation of reliability of tax deficiency estimates in proposed criminal prosecutions.)

SOURCE: Unpublished internal computer tabulations of IRS Service Centers or penalty assessments and of IRS Criminal Investigation Division on criminal sentences, (reprinted in part in Annual Report of Commissioner, 1978: 95).

Figure 1.4

FEDERAL TAX OFFENSES  
AVERAGE FINANCIAL PENALTIES, 1978



\* DATA FOR CORPORATIONS NOT SEPARATELY AVAILABLE

which the penalty is computed is the total underpayment.<sup>7</sup> This is true even if only a small part of the underpayment is attributable to fraud. Thus the penalty can be sizable in relationship to any objective standard of the amount involved in the actual offense. Third, while the criminal code sets maximum penalties, lesser amounts can be imposed by the Court. Civil penalties are set by statute and the rate is typically not subject to discretionary reduction.<sup>8</sup>

Civil penalties which are ad valorem range from half a percent up to 125 percent of unpaid taxes due. Some civil provisions impose fixed dollar amounts rather than prescribing rates. These range from a dollar (as for failure to file certain kinds of information returns) up to a maximum of \$1,000 per violation (maximum of \$25,000 per year per type of offense). Appendix A describes financial sanctions imposed under civil provisions.

#### B. Standards for Imposition

Civil and criminal sanctions can also be distinguished on the basis of the standards and procedures for imposition, as summarized in Table 1.7. The most stringent requirements are for the imposition of criminal penalties. First, the government must take the taxpayer to court and the prosecution must result in a conviction. Unless the accused pleads guilty or the judge accepts a plea of nolo contendere, the government bears the burden of proof at trial, and the evidence presented must establish guilt beyond a reasonable doubt.

In contrast, all civil penalties are imposed administratively. Civil penalties are assessed and collected just as any tax, without the necessity for any court determination. Standards and procedures vary somewhat by the type of penalty. These differences, however, come into play only if the taxpayer takes the government to court to contest the penalty. Further, not only must the taxpayer

---

<sup>7</sup> There is a somewhat complicated and technical definition of underpayment, varying by the circumstances and type of tax. It is not always directly related to the actual underpayment in tax (see, for example, IRC 6653). For our purposes these technical details are not essential.

<sup>8</sup> As a matter of practice, informal compromises and trading does go on, though it is whether or not the taxpayer is subject to the penalty other than the rate at which the penalty is calculated which is more often negotiated (S. Doc 94-266; pp. 660-662, Rubenstein and Lax, 1973:214).

TABLE 1.7

IMPOSITION OF TAX PENALTIES,  
PROCEDURES AND STANDARDS

	Type of Penalty			
	Criminal	Civil		
		Fraud	Negligence	Other
I. Procedures:				
A. May be imposed administratively by IRS:				
1. No	X	--	--	--
2. Yes	--	X	X	X
a. taxpayer can initiate court appeal prior to payment of penalty <sup>1</sup>	--	yes	yes	no
b. taxpayer must pay penalty, before can file in court to appeal. <sup>2</sup>	--	no	no	yes
II. Standards in Court				
B. Government bears burden				
1. Yes	X	X	--	--
2. No	--	--	X	X
C. Standard of Proof				
1. beyond a reasonable doubt	X	--	--	--
2. by clear and convincing evidence	--	X	--	--
3. preponderance of evidence	--	--	X	X

<sup>1</sup>Court hearing prior to payment is only available for income, estate, and gift taxes and in these cases the only court forum available prior to payment is the U.S. Tax Court. Originally established as an administrative court in the 1920's, in 1969 it was made an Article I (legislative) Court. Appeals from its orders are treated just as any federal appeal from U.S. District Courts. See IRC 7441-7444, 7481-7487, Federal Rules of Appellate Procedures. If the taxpayer wishes to have a jury trial, or be heard in the U.S. District Court or U.S. Courts of Claims, when the civil fraud or negligence penalty are asserted s/he must pay first and sue to get it back.

<sup>2</sup>The U.S. Supreme Court in a 5-4 1960 decision in Flora vs. United States, 357 U.S. 63, on rehearing 362 U.S. 145, held district courts have no jurisdiction to hear suits for refund of taxes or penalties unless the entire tax in dispute had been paid first. Where the penalty is so severe the taxpayer does not have adequate funds to pay the entire deficiency there is currently no remedy available.

initiate the court proceeding, but the taxpayer has the burden of proving, (except in the case of civil fraud), that the penalty was improperly levied.

For most other civil penalties, the assertion of the penalty is treated like an arithmetic error on the return. The computer automatically assesses the penalty and sends the taxpayer a notice that the amount of the penalty is due. If the taxpayer does not pay this penalty within ten days of the notice (whether or not it is ever received by the taxpayer) the government has the authority to seize (levy) almost any of the taxpayer's assets in satisfaction of this debt.<sup>9</sup> The taxpayer under the statute has no remedy except after payment has been satisfied. Then, and only then, can s/he file a claim for refund and, if the claim is administratively denied, file suit in court. Some penalties differ, as for negligence and civil fraud, since notice is generally required before the assertion and collection of the penalty. This statutory notice of deficiency gives the

---

<sup>9</sup>Up until the Tax Report Act of 1976, the IRS had virtually unlimited levy and seizure authority. No portion of wages or salaries was exempt from levy, and assets (home, car, goods and other property) could also be administratively seized and auctioned off. Third parties, such as employers or banks in possession of assets of the taxpayer, are required to surrender them to the government or themselves are subject to an additional 50 percent penalty (see IRC 6332). The only exemptions from levy were minor in nature --for necessary wearing apparel and schoolbooks, personal household effects (up to \$500 maximum), books and tools if in trade or business (up to \$250 maximum), and unemployment and workman's compensation benefits (IRC 6334). With the passage of the 1976 Tax Reform Act, \$50 per week (plus \$15 per dependent) of a person's wages, salaries or other income is now also exempt from levy.

taxpayer ninety days to file in the U.S. Tax Court.<sup>10</sup> If a petition is filed, the assessment is stayed (except in case of jeopardy) for the trial court's ruling.<sup>11</sup>

### C. Relative Frequency of Use

While together the civil and criminal provisions number over one hundred, relatively few provisions actually are used with any regularity by the IRS. During the past three fiscal years, as shown in Table 1.8, roughly eighty percent of all recommendations for criminal tax prosecution made by the Criminal Investigation Division (prior to October 1978 called the Intelligence Division) involved only five statutory sections.

All from the Internal Revenue Code, these were:

Sec. 7201	Willful attempt to evade or defeat any tax
Sec. 7203	Willful failure to file returns, pay tax, or keep or supply required records/information
Sec. 7206(1)	Willful filing of a false return or document
Sec. 7206(2)	Willful aiding or advising the making of a false return or document
Sec. 7215	Failure to comply with separate accounting and accelerated deposit of taxes withheld (applies to employers)

---

<sup>10</sup>The U.S. Tax Court is a national court established under Article I (legislative branch) rather than Article III (judicial branch). It only has jurisdiction to hear income, estate and gift tax disputes; no prepayment remedy is available in case of excise or employment taxes. Appeals from the Tax Court are to the U.S. Courts of Appeal and are handled just like appeals from U.S. District Courts. (For a history of the U.S. Tax Court, see Albany Law Review, Vol. 40, pp. 7-112, 253-309; Vol 41, pp. 639ff; Vol. 42, pp. 161-278, 353-451.) Taxpayers, here as before, can also pay first and sue for a refund in either the U.S. District Courts or the U.S. Court of Claims.

<sup>11</sup>Assessment and collection are not, however, stayed as a matter of course while a Tax Court's ruling is appealed.

TABLE 1.8

RECOMMENDATIONS FOR CRIMINAL TAX PROSECUTION  
INTERNAL REVENUE SERVICE<sup>1</sup>

Criminal Offense		1976		1977		1978		Total	
Section	Section	No.	%	No.	%	No.	%	No.	%
Tax evasion	26 7201	1,137	36	1,298	38	1,153	34	3,588	36
Failure to file	26 7203	642	20	669	20	717	21	2,028	20
False documents	26 7206(1)	444	14	407	12	464	13	1,315	13
False doc. (aiding)	26 7206(2)	306	10	190	6	108	3	604	6
Withholding	26 7215	229	7	186	5	301	9	716	7
General criminal code	Title 18	220	7	408	12	360	10	988	10
Miscellaneous	Other	169	5	250	7	336	10	755	8
Total		3,147	100%	3,408	100%	3,439	100%	9,994	100%

<sup>1</sup>Prosecution recommendation by IRS Criminal Investigation (formerly Intelligence) Division.

Note: Percents may not total 100 because of rounding error.

SOURCE: Unpublished internal computer tabulations of IRS Criminal Investigation (formerly Intelligence) Division.



An additional ten percent of all prosecution recommendations involved statutory provisions from the U.S. Criminal Code (chiefly Secs. 286, 287, 371), with the remainder involving Sec. 7205 and other miscellaneous provisions of the Internal Revenue Code. (See Appendix A for a brief discussion of each criminal penalty section.)

A similar picture is true for civil penalties. Eleven, in fact, account for all but approximately nine thousand of the nearly 13.5 million occasions on which a civil penalty was imposed during the last year. (See Table 1.9.) These provisions are:

Sec. 6651(a)(1)	Failure to file return
Sec. 6651(a)(2)	Failure to pay amount shown on return
Sec. 6651(a)(3)	Failure to pay deficiency after assessment
Sec. 6653(a)	Negligence or intentional disregard of rules and regulations
Sec. 6653(b)	Civil fraud
Sec. 6654	Failure to pay estimated income tax (individual)
Sec. 6655	Failure to pay estimated income tax (corporation)
Sec. 6656	Failure to make deposit of taxes (employees, corporation, employer or excise)
Sec. 6657	Bad checks
Sec. 6695(b)	Failure of a return preparer to sign a return or refund claim
Sec. 6695(c)	Failure of a return preparer to furnish identifying number on return or refund claim

Late payment or deposit account for three out of four (76%) of all sanctions imposed, while the late filing provisions of Sec. 6651(a) account for an additional 21%-- thus covering approximately 97 percent of all cases.

TABLE 1.9

IMPOSITION OF FEDERAL TAX SANCTIONS FOR FISCAL 1978  
FREQUENCIES OF CIVIL PENALTIES AND CRIMINAL CONVICTIONS

	Number	Rate per 1,000 returns
Civil Penalties		
failure to pay	5,930,192	43.0
estimated tax	2,916,335	21.0
delinquency	2,869,097	21.0
federal tax deposits	1,884,897	14.0
bad check	212,510	1.6
negligence	67,407	0.5
failure to sign		
return/supply ID	65,900	0.5
fraud	9,013	0.1
Total Civil Penalties	13,964,3611	102.01
Criminal Penalties		
criminal convictions	1,414	0.01
Serious Penalties Only		
	Number	Percent
negligence	17,407	86.3%
civil fraud	9,013	11.8
criminal conviction	1,414	1.92
Total	27,834	100.0%

<sup>1</sup>Total civil penalties assessed at Service Centers whether or not resulting from direct enforcement action; total includes 9,010 miscellaneous penalties not elsewhere classified.

<sup>2</sup>Criminal convictions include those resulting from fraud, as well as all other criminal tax statutes (including wagering offenses); in the case of criminal fraud, both criminal penalties and civil fraud penalties may be assessed (though as a result of separate actions).

SOURCE: Unpublished agency statistics, IRS Annual Report (fiscal 1978).

As also shown in Table 1.9, the relative use of civil versus criminal penalties underlines the important numerical role civil penalties play in sanctioning tax violations. Out of a total of nearly 14 million sanctions imposed by IRS last year, less than 1 in 10,000--only 1,414--involved a criminal sanction. Even among serious violations where fraud or negligence was involved, out of over 75,000, less than 1 in 50 resulted in a criminal case.

The frequency with which penalties are imposed was also related to the ease of their imposition. Clearly, those which are computer assessed, such as the nonpayment (or late payment) of taxes, and the failure to file or late filing of a return are most frequently used. Both the number of statutes and the frequency of their imposition decrease sharply as one moves up the scale of difficulty from automatic assessment to negligence and fraud deficiencies to criminal prosecution and conviction. To what extent this reflects a higher relative frequency of occurrence of these violations rather than the administrative priorities and ease of imposition requires further information. (Some data are available to assess the prevalence of tax violations by type, and will be examined in Chapters III and IV.)

#### Comparing Offenses: Type and Culpability

In addition to classifying tax violations on the basis of type and severity of sanctions imposed, penalty provisions can be arrayed by the culpability of the behavior (or offense) sanctioned. Such a classification system lends itself to comparison across white-collar offense areas. Further, the culpability standard was suggested (Biderman and Reiss, 1979:3) as a basis for distinguishing violations included under the project's definition of "white-collar offenses."

Culpability standards have evolved over a long period of time in criminal law. The historical bases provide us with a useful standard against which "culpability" reflected in federal tax statutes can be compared. Historically, five degrees of culpability are usually distinguished, ranging from most to least culpable: purposely, knowingly, recklessly, negligently, and no culpability. (See Model Criminal Code, Article 2.02; LaFave and Scott, 1972:218-223.) In case of no culpability (commonly referred to as a strict liability statute), the sanction is contingent only on a person performing on the defined acts.

Both purposely and knowingly require (1) knowledge that what one does is a violation, and (2) intent to commit that violation. But only in the former need the violation be "purposeful"--that is, done to achieve the end result.

Thus, in the tax area "willful filing of a false return" is knowingly done; "attempt to evade" by filing a false return is both knowingly and purposely done.

In contrast, neither recklessness nor negligence require that the violation be intentional, merely that it results from some degree of fault. "Negligence . . . means lack of due care or failure to do what a reasonable and ordinarily prudent person would do under the circumstances," Marcello v. Commissioner, 380 F.2d 499 (1967), certiorari denied, 389 U.S. 1044 (see also Internal Revenue Manual 4563.1(2); Prosser, Torts 32, 184-185, (4th Ed., 1971); Model Criminal Code Sec. 2.02(2)(d)). Recklessness is not simply the absence of reasonable care but wanton carelessness or disregard of probable consequences of one's actions or a "conscious . . . disregard of a substantial and unjustifiable risk." Model Criminal Code, Sec. 2.02(2)(c).

A number of interesting generalizations emerge from an examination of tax penalty provisions (listed in Appendix A) by culpability, severity of sanction, and whether actual evasion of taxes is involved.

- (1) Behavior at both end of the culpability scale can be subject to criminal, as well as to civil sanction. Although criminal provisions more often than civil require that the violations be knowingly ("willful") or purposeful, some criminal penalties (including both misdemeanor and felony provisions) are imposed automatically without any requirement that the behavior or omission be culpable or worthy of blame.
- (2) Penalty provisions--both criminal and civil--tend to fall at the two extremes of the culpability scale, rather than in the middle. No criminal or civil provision employs a recklessness standard and only one major civil penalty utilizes a negligence standard. This provision, commonly referred to as the negligence penalty, is a curious hybrid, penalizing equally both "intentional disregard of rules and regulations (but without intent to defraud) and merely negligent behavior. See S. Doc. 94-266, 1975 at 639-649, IRC 6653(a)).
- (3) Most penalty provisions sanction acts of omission, not acts of commission. This is equally true in both civil and criminal areas.
- (4) Though most provisions sanction behaviors which may facilitate tax evasion, only two penalty provisions--one criminal and the other civil--deal with tax evasion per se. But even in the case of

criminal provision, actual evasion is not required, only some "attempt in any manner to evade or defeat any tax." (It is the civil provision that requires actual evasion.) While (as we have seen from Table 1.8), this "attempt to evade" section is the most frequently used, still it accounts for only roughly one-third of all criminal prosecutions. Thus, while classification schemes lump all criminal tax violations under the label "tax evasion," none in fact meet this strict standard. Nor do most of the offenses require fraud; that is, a purposeful act to evade (LaFave and Scott, 1972:655). Nonetheless often tax violations are all simply grouped under the fraud category (see for example, statistics of the Administrative Office of the U.S. Courts, Annual Reports).

- (5) Civil and criminal provisions cannot be reliably distinguished on the basis of the culpability of behavior, type of act (omission or commission) or whether tax is evaded or due. While there is a tendency for a higher proportion of civil statutory provisions to be applied irrespective of culpability, that a tax be evaded or due is much more often a requirement of civil than criminal provisions. Further civil penalties exist at every level of culpability for which criminal penalties apply.
- (6) While the range of penalties both civil and criminal is wide, not a great deal of this variation is systematically tied to the culpability of the offense (at least as culpability is defined by the statute). Maximum civil penalties show no consistent relationship with offense culpability. Indeed, the most culpable--civil fraud--imposes a rate of only half that imposed for offenses for which there is no or only minor culpability required, such as underpayment of taxes on private foundations (IRC 6684) and underfunding of qualified retirement plans (IRC 4971), although in the latter case the penalty is discretionary to assert. Further, the negligence penalty of five percent is less severe than that imposed for being over thirty days late in filing a return (5 percent a month, up to maximum of 25 percent). For criminal penalties, while degree of culpability does not distinguish misdemeanors from felonies, maximum sentences are higher for willful and purposeful acts.

## Classifying Offenders

Not only offenses but offenders can be classified. Generally, tax offenders are treated for purposes of penalty provisions in the Code on the basis of only one dimension--whether or not they are the taxpayer.<sup>12</sup> On this distinction, civil and criminal penalty statutes typically differ. Usually, criminal penalties can be asserted against anyone who commits or assists in the commission of the offense--the taxpayer, or an officer, representative, trustee, tax advisor, employee. Civil penalties, however, almost invariably can be asserted only against the taxpayer.<sup>13</sup> Thus a corporation, but not the corporate officer(s) (unless their personal liability is involved), could be civilly sanctioned; while criminal penalties could be applied both against the corporation and the officer(s) involved.

Assessed and collected as taxes, civil penalties adhere to the liability on the return. Indeed, in the case of ad valorem penalties, not only is it the taxpayer who is liable but there is no liability for the penalty if no underpayment of tax results from the violation. Thus, while failure to file can be criminally prosecuted even though withholding on wages left no tax owed, no civil penalty can be asserted for the failure to file, since there is no underpayment. In sharp contrast, most criminal penalty provisions, as we have seen, do not require proof that any tax has been "evaded."

A few special civil penalties have been passed, applicable to persons other than the taxpayer. These have been enacted to ensure the performance of other duties under the Code. Thus persons who fail to turn over the assets of another upon demand by IRS are themselves liable for 50 percent penalty on the sum involved; tax return preparers who fail to sign a return or supply their proper ID are subject to penalty. These, however, are not common in penalty arrangements.

---

<sup>12</sup>Taxpayers, however, can be further classified on the basis of the type of tax--income, employment, excise, estate or gift--involved. While for income tax the class includes most adults in the country, for certain excises, the class of taxpayers may be quite small.

<sup>13</sup>In this context, the term "taxpayer" includes the person liable for withholding taxes.

## DEFINING TAX VIOLATIONS AS WHITE-COLLAR CRIME

Generally, all criminal tax provisions fall within most definitions of white-collar crime. But, there is little basis for distinguishing civil fraud from most criminal violations. On the basis either of culpability or the seriousness of the sanction involved, civil fraud differs little from criminal fraud. (They do differ, however, in the standards and procedure by which they are imposed. As we have seen, civil fraud penalties can be assessed administratively, and it is the taxpayer who must initiate any court test of their imposition. No doubt it is in part because of this relative ease in application that they are asserted much more frequently than criminal prosecutions.)

Left out of this definition are many civil sanctions which though serious or involving sizable penalties are farther removed from what are usually thought of as "crimes." Nonetheless, because these other civil penalties may be used in lieu of, or in addition to, criminal sanctions, their inclusion in an information system or sourcebook on white-collar crime might well be advisable. Indeed legislation reorganizing LEAA passed at the close of 1979 (The Justice System Improvement Act of 1979), would appear to explicitly define almost any tax violation as "white-collar crime."<sup>14</sup>

Some definitions of white-collar crime focus on the status of the offender, rather than (or in addition to) the offense. For the tax area, this seems to be a distinction without a difference. It may be very interesting to examine offending behavior by income groups, asset levels, or occupational categories. But these should be empirical rather than definitional issues. Differences observed across classes are more likely to be related to differential opportunities than to the causal or motivational structure behind the offending behavior, or the nature of the criminal act (or omission) itself.

To the extent we wish to limit our focus to offenses involving those in the legitimate rather than illegitimate social structure, it may make sense to separate out those

---

<sup>14</sup>Section 901(a)(18) provides: "'white-collar crime' means an illegal act or series of illegal acts committed by nonphysical means and by concealment or guile, to obtain money or property, to avoid the payment or loss of money or property, or to obtain business or personal advantage." It would seem important, however, to distinguish between these two broad classes of offenses. While some "crimes" may be civilly sanctioned, most violations which result in civil sanctions bear little resemblance to criminal acts, and should not be lumped with crimes.

special provisions enacted to regulate rather than raise taxes. Examples include the special taxes on wagering and coin-operated gambling devices. These were enacted to make it easier to catch "crooks," not for the purpose of deterring the general public from evading taxes. However, the relative contribution of these few provisions to the total set of criminal prosecutions is small. More often, the same code provisions used to sanction the general taxpaying public are applied against those whose income is derived from illegal sources. Again, while it may be very interesting to compare tax violations by the general public with those committed by racketeers or others involved in illegal activities, the nature of the tax offense remains essentially the same. Thus, in many contexts, it makes sense to include tax offenses committed by both groups under the general heading of white-collar crime.

In designing a statistical reporting system of white-collar crime, given the diversity of opinions over how white-collar crime should be , a guiding principle should be flexibility. Sufficiently detailed information over a wide enough range of offenses should be included so violations can be grouped to fulfill different purposes and definitional standards. For the tax area, it would be useful to include wherever possible data on the nature, culpability and seriousness of the offense, as well as such taxpayer characteristics as income and occupations to facilitate this flexibility goal.



## CHAPTER II

### STATUTORY HISTORY

Our modern federal tax system has a long history. Important statutory changes in both substantive and penalty provisions affect the meaning of statistical series. In the sections that follow, I will highlight only some of the major dimensions of statutory change, and illustrate their affect on time series comparisons. In Appendix B to this report are specific statutory histories of the five major tax offenses accounting for most criminal prosecutions, along with a similar statutory history of the most serious civil penalty provision covering civil fraud. These specific histories describe in greater detail trends touched upon in the main body of this report and serve as an example of the evolution of white-collar statutes in the twentieth century.

#### SUBSTANTIVE TAX PROVISIONS: CHANGES IN COVERAGE AND COMPLEXITY

Three elements of change are important for our analysis here. First is the change in tax revenue sources. Second are important shifts in the coverage of both persons and economic transactions under tax statutes. Third is the evolution in complexity of the law. Together, these statutory changes have altered the nature of offending behavior, and the potential offender pool or "population risk."

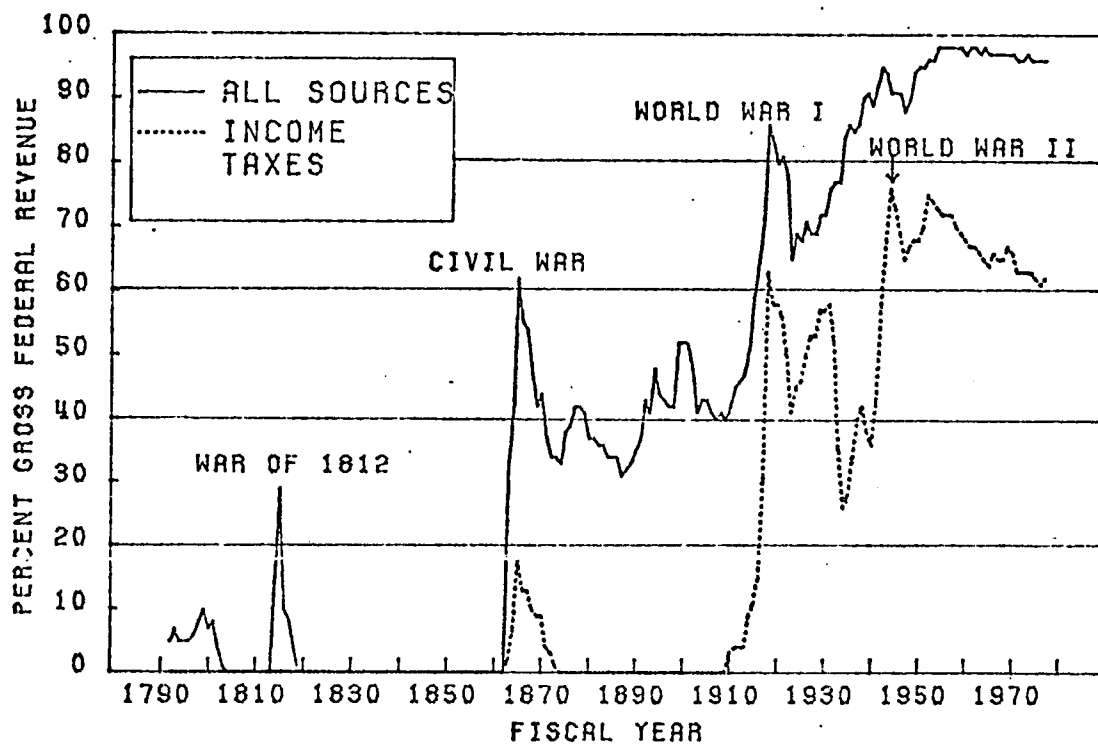
#### Changing Sources of Federal Revenue

This country's history can be divided into three main periods, marked by major changes in federal revenue statutes. As shown in Figure 2.1, up until the Civil War, revenue was derived almost wholly from external sources, largely custom duties. With the exception of two brief periods (related to payment of expenses from the Revolutionary War and the War of 1812) no taxes were levied internally upon the citizenry at the federal level.

The financial needs of the Civil War brought about a major and permanent shift in revenue sources. In 1861 and 1862 came the passage of the first continuing internal revenue measures and the establishment of the Internal Revenue Service--then the Office of the Commissioner of Internal Revenue (later the Bureau of Internal Revenue). While internal sources of revenue continued to play a secondary role during this second period to customs duties (except during the Civil War's disruption of foreign trade),

Figure 2.1

# GROWING IMPORTANCE OF INTERNAL SOURCES OF REVENUE



internal sources as compared to the pre-Civil War period were a significant source of federal revenues, averaging (as shown in Figure 2.1) around forty percent of all federal collections from 1862 up until the beginning of World War I. Sources of internal revenue during this period, however, were markedly different from those today. Then (see Figure 2.2) excise taxes--chiefly on alcohol and tobacco--were the major sources of internal revenue.

The modern tax period was inaugurated with the passage of the federal income tax measures after the approval of the Sixteenth Amendment to the Constitution in 1913. With the outbreak of World War I, internal taxes were increased and quickly became the primary source of federal revenues (see Figure 2.1). While customs revenues' relative share regained some ground with the resumption of foreign trade after World War I, internal revenue sources continued to provide the major and growing source for federal revenues. Today, customs duties comprise only a little more than one percent of all federal collections.

This modern period also saw a shift in the primary components of internal revenue. As shown in Figure 2.3 income taxes and, in more recent years, income plus social security or employment taxes have been the primary source of revenue. Within income taxes, receipts from individuals have increased sharply relative to the income tax borne by corporations (Figure 2.4). Excise taxes, which were the dominant source of internal revenue prior to World War I, now comprise only five percent of internal revenue. (Detailed figures on components of internal revenue are given in Appendix, Tables C.1 to C.3.)

These statutory changes have important implications when examining available statistics on federal revenue violations during this period. Because of the major shifts in revenue sources, statistics reflect quite different sets of offenses. Revenue violations up until the Civil War were largely customs offenses. With the growing importance of internal revenue during and after the Civil War, alcohol and tobacco excise offenses emerge as significant areas of tax violations. After World War I, the enforcement role of the Internal Revenue Service increasingly shifted from alcohol and tobacco excises to income and employment offenses which today comprise the major source of federal tax violations.<sup>1</sup>

---

<sup>1</sup>In 1972, enforcement of alcohol, tobacco and firearms statutes was transferred out of IRS and a separate Bureau of Alcohol, Tobacco and Firearms was established in the Department of the Treasury.

Figure 2.2

DECLINING IMPORTANCE OF EXCISE TAXES  
AS A SOURCE OF FEDERAL INTERNAL REVENUE, 1863-1978

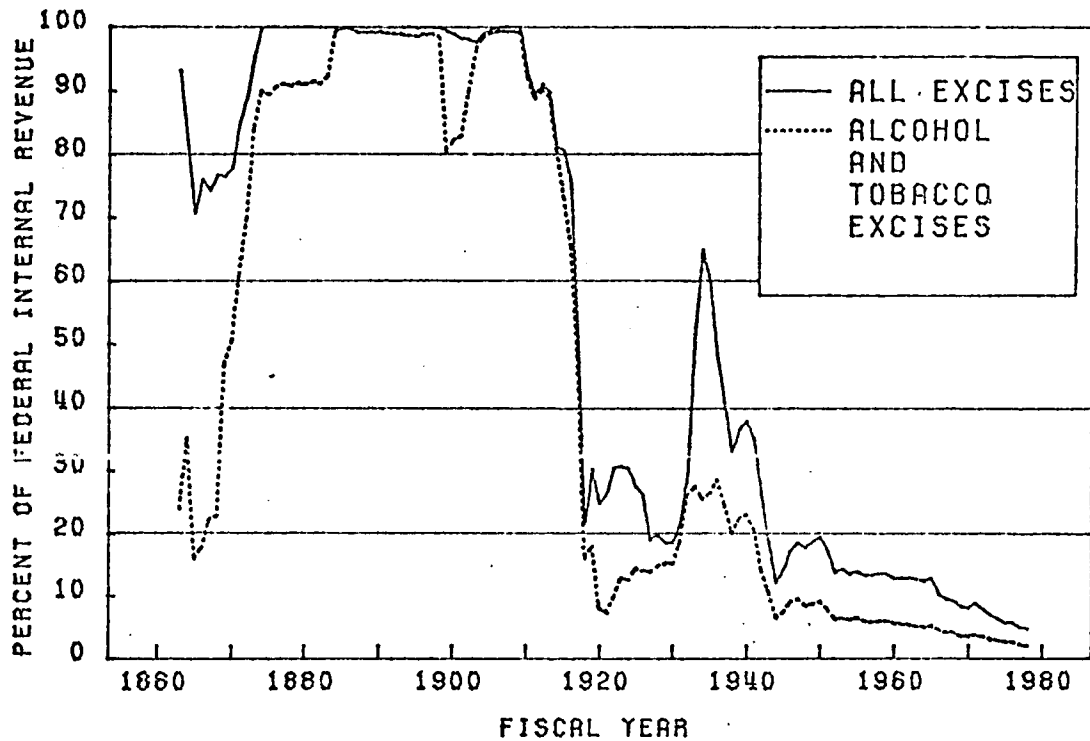
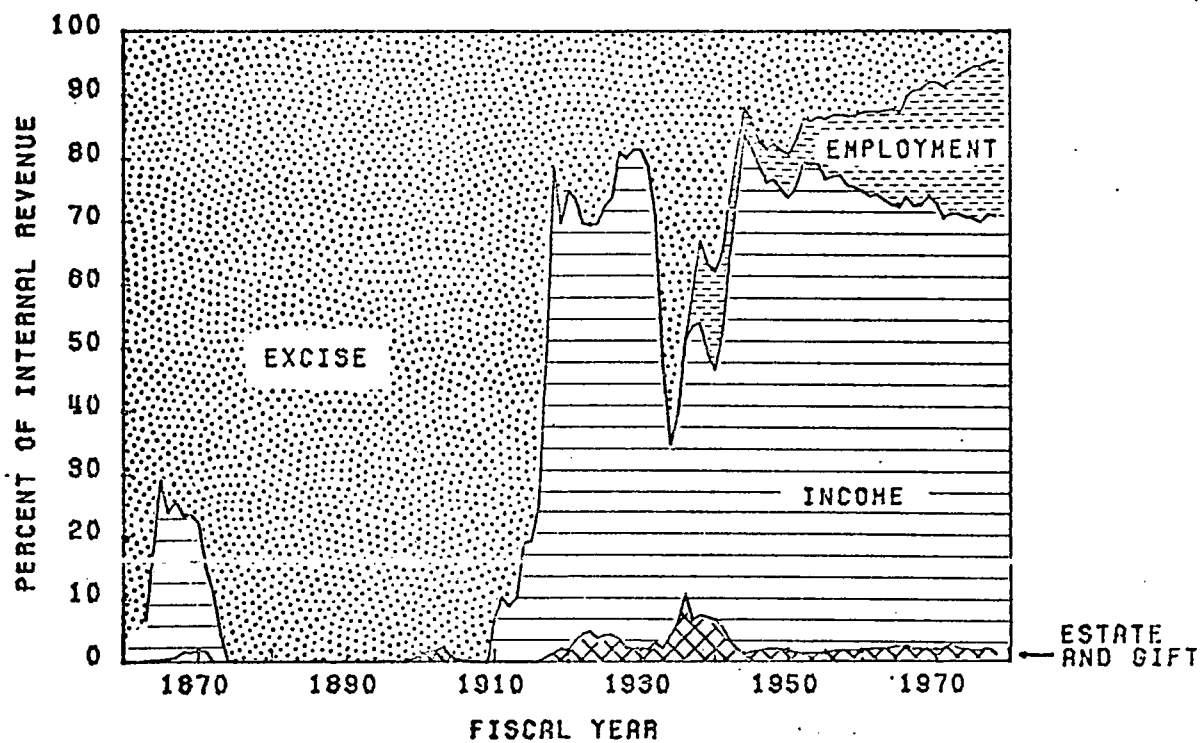


Figure 2.3

CHANGING COMPONENTS OF FEDERAL INTERNAL REVENUE, 1863-1978



## Changing Coverage of Tax Statutes

Ever since the passage of continuing federal income tax measures in 1913, there have been important shifts in the coverage of both persons and economic transactions under the statutes. The income tax provisions passed in the Tariff Act of 1913 show little resemblance to the present Internal Revenue Code. The 1913 measure imposed relatively low rates of tax on only a small proportion of the population. Less than one in fifty adults in the country were required to file returns, and the normal tax was only one percent of their net incomes after exemptions up to \$20,000 (which in constant dollars would be equivalent to \$120,000 today), rising to a maximum of seven percent of incomes over half a million (\$3 million in today's dollars). Single persons with net incomes of less than \$3,000 (\$18,000 in today's dollars) and married couples with net incomes of less than \$4,000 (\$24,000 in today's dollars) were exempt from filing returns or paying tax (38 Stat. 168). Corporate net incomes were taxed at a flat one percent rate (38 Stat. 172). The Revenue Act of 1916 raised rates to two percent, up to a maximum of ten to thirteen percent on incomes over half a million dollars. But who was required to file and the income subject to taxation remained unchanged (39 Stat. 756).

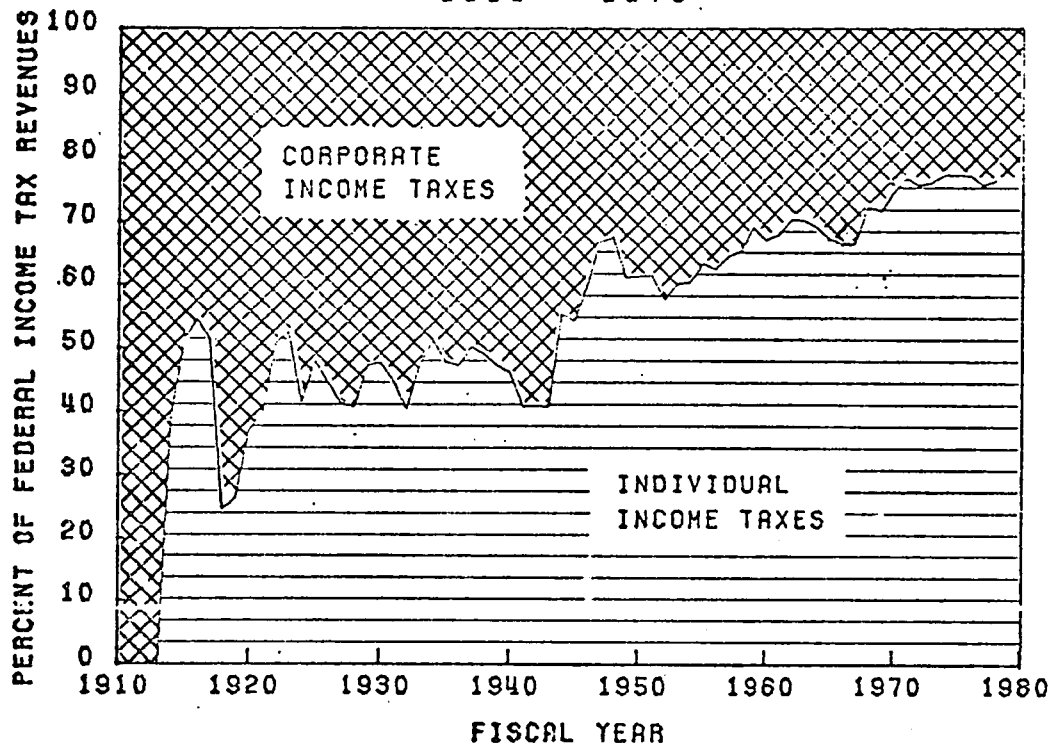
In contrast, an estimated ninety-five percent of the population is presently covered by income tax return filings. Tax rates start at fourteen percent, rising to a maximum of seventy percent on incomes over roughly \$100,000 for single individuals, and twice that for married couples filing jointly. (See Revenue Act of 1978, 92 Stat. 2767-2769.)

Revenue collections have also risen dramatically during this period, as shown in Figure 2.5. Today, gross internal revenue collections total close to \$400 billion, of which almost \$250 billion is collected from income taxes alone. This is in contrast to less than half a billion collected annually during the period 1913 to 1916. Even adjusting these figures for inflation, 1913 to 1916 income tax collections in today's dollars totaled less than half a billion dollars annually with an additional two billion per year from other internal revenue sources--roughly half a percent of 1978 revenues.

These figures on gross collections in Figure 2.5, however, fail to highlight the two periods of rapid change which occurred since income tax requirements were passed in 1913. Just as the Civil War marked a major transition between external and internal taxes, World War I and World War II mark major turning points in internal revenue coverage. These shifts are evident in Figures 2.6 and 2.7

Figure 2.4

SHIFTING COMPONENTS OF FEDERAL INCOME TAX REVENUES,  
1910 - 1978



which plot changes in the proportion of the population filing returns and in the proportion of personal income in the country subject to federal income taxes.

These two graphs reflect drastic changes in statutory requirements which occurred at the onset of each of the World Wars. With the passage of the Revenue Act of 1917 (40 Stat. 300) and the Revenue Act of 1918 (enacted February 24, 1919; 42 Stat. 1057) both the coverage (through lowering personal exemptions) and the rate of tax were sharply increased. These changes resulted in more than a tenfold increase in returns and the proportion of persons required to file and pay tax (Figure 2.6). The proportion of total U.S. personal income covered by returns rose to forty or fifty percent (depending upon how the base is calculated),<sup>2</sup> and roughly an estimated thirty percent of all personal income was included on returns on which tax payments were required.

While there was some reduction in both coverage and tax rates in the latter half of the 1920's, the federal income structure had undergone permanent change. With the onset of the depression, rates soon increased back to World War I levels and the level of income below which no tax was required was again cut to \$1,000.

World War II marked the second transition from moderate to mass coverage of both peoples and incomes. Coverage was extended by lowering personal exemptions. For the first time all persons making at least \$500 in a year were required to file (\$1,000 for a couple, plus \$350/dependent). Rising general income levels during the war years also pushed more individuals into tax paying brackets. Instead of ten percent of the population filing returns, the number rose to an estimated seventy-five percent by 1945, with an even greater proportion of the country's total personal income estimated as reported on returns.

After the war, tax rates were cut but not reporting requirements. Thus the transmission to a mass coverage, though brought about by war needs, became permanent. Indeed, rising levels of income and inflation moved more individuals into income tax brackets above the filing requirement. Today, an estimated ninety-five percent of the population is required to file, roughly eighty percent are subject to

---

<sup>2</sup>Adjusted personal income figures translate personal income as defined for economic purposes in the national income and product accounts to personal "income" as defined for federal tax purposes. (See Chapter III, Residual Measures, for further discussion of these differences.)



Figure 2.5

GROWTH IN CONSTANT DOLLARS OF INTERNAL REVENUE BY SOURCE,  
1910 - 1978

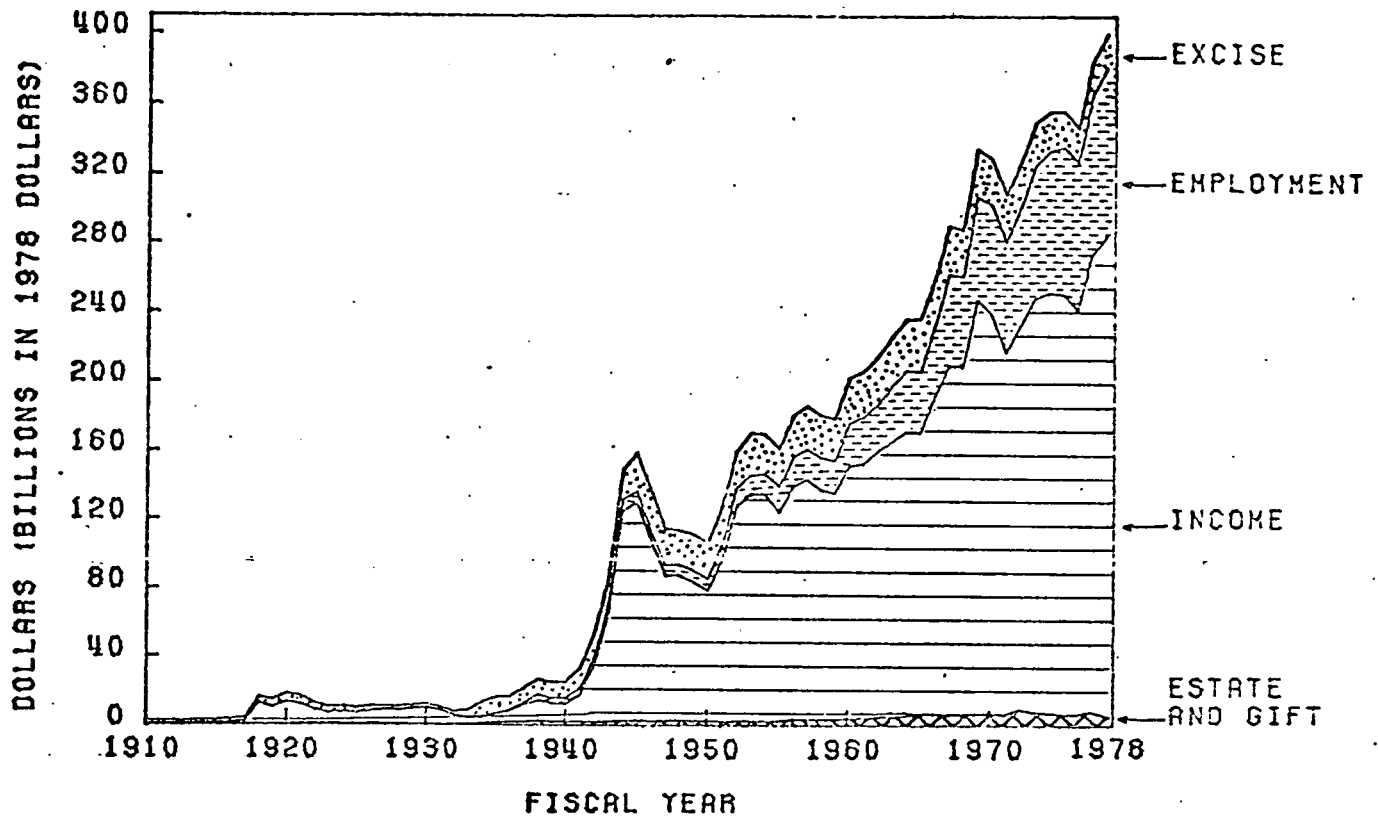


FIGURE 2.6.

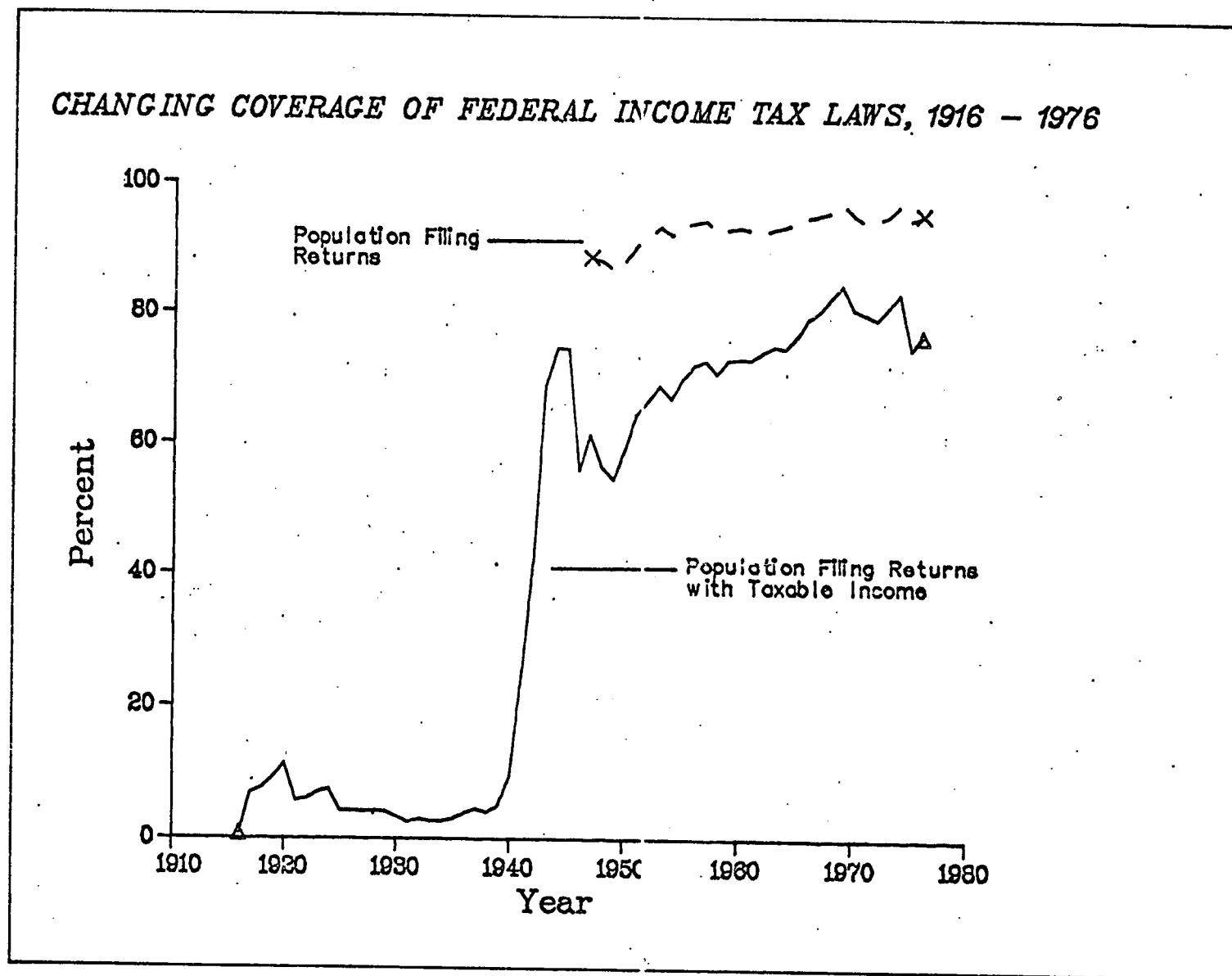
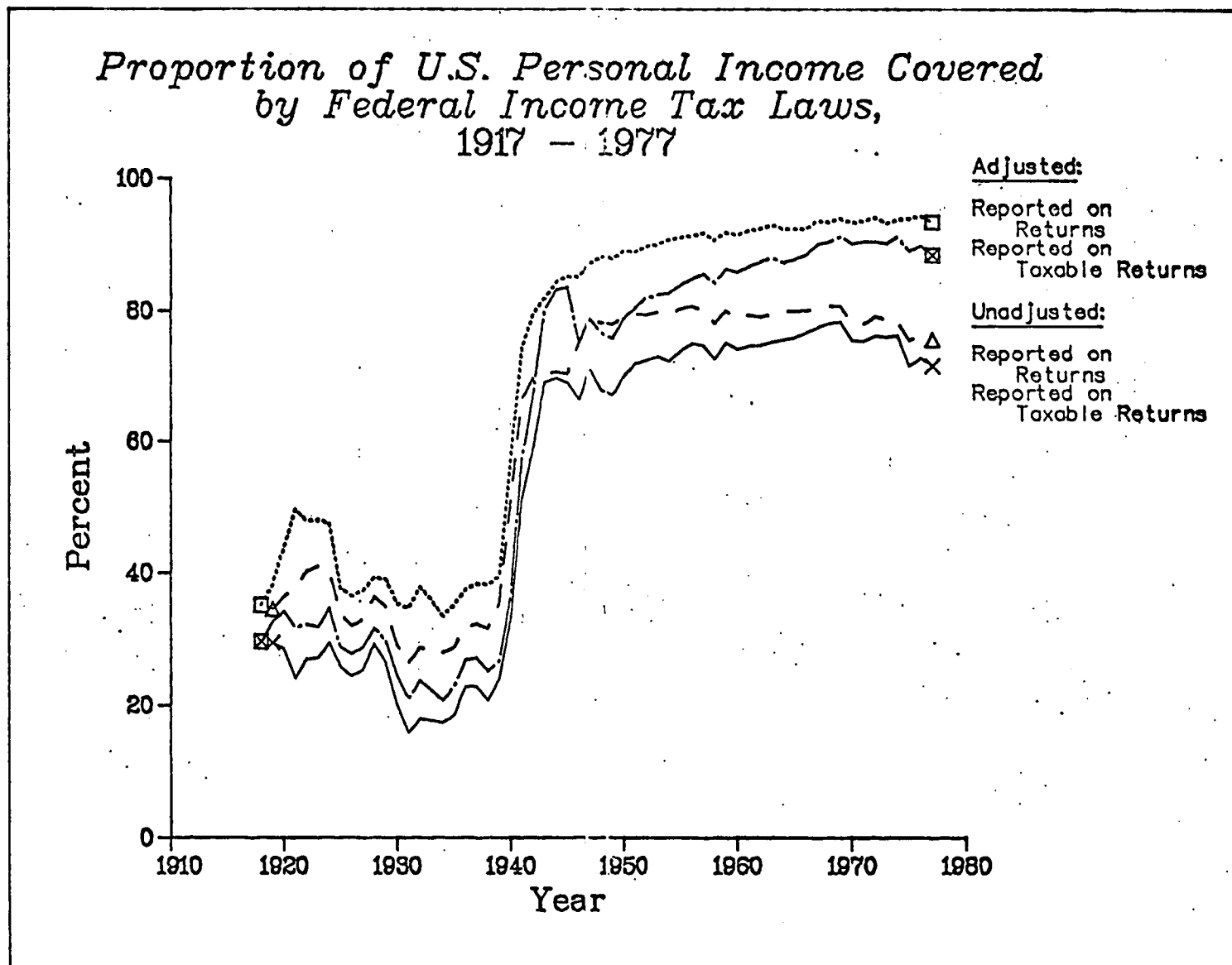


FIGURE 2.7



tax on a filed return, and comparable proportions of the total personal income in the country are estimated to be covered by these returns.<sup>3</sup>

These changes also have important implications for assessing the prevalence of tax violations and in comparing noncompliance, sanctioning actions, and other offense data over time. Not only is it important to keep in mind the tremendous growth in the so-called "population at risk" in the computation of rates of violation and sanctioning actions, but it also is important to realize the significant changes which have occurred in the components of the population which were subject to tax requirements. In the early years, income tax was a tax on the relatively well-to-do; today virtually everyone is subject to some federal tax requirements. If population segments differ in their compliance with tax laws, time series data for the population as a whole may reflect not only real changes over time, but changes in the composition of the populations subject to federal tax requirements.

While I have focused upon the major points of change, even during the post World War II period coverage levels--particularly for the taxpayer subject to taxes and not simply filing requirements--have varied between less than sixty percent to eighty percent. Even during the last few years, changes in the amount of personal exemptions and in the standard deduction have had an impact on the proportion of the population subject to tax, while increases in the general levels of income have shifted the distribution of taxpayers among income brackets. These changes complicate time series comparisons, as we will later see when we examine changes in tax violation measures in a later section. Further, this discussion has been restricted to the changing requirements of income tax laws for individuals. While income taxes are presently the largest source of federal revenue, individual income taxes account for only one in every two federal dollars. Significant changes have also occurred in other areas: corporate, estate, excise gift, and particularly in the employment tax area. These too have implications for time series comparisons.

---

<sup>3</sup>Some overcounting of the population covered by returns does occur because of special features in the definition of dependents. Thus, certain students may both claim themselves, and be claimed by their parents, as dependents on returns.

## Changing Complexity of Substantive Requirements

Tax statutes also illustrate another element common to many in the white collar offenses area--complexity. While the last sixty years have been marked by both increases in coverage and the rate of taxes imposed, they have also seen an expansion of the complexity of the laws. The Internal Revenue Code now stretches 2200 pages, not including the 7600 pages of regulations which have the force of law. In sharp contrast, the income tax provisions in the original 1913 act totaled fifteen pages (Section II of 38 Stat. 166-180).

Today, except for relatively "simple" returns with a standard deduction, it is difficult to speak of a "correct" return.<sup>4</sup> The statutes themselves are filled with complexity. Varying fact patterns present in individual tax situations make determining the "correct" tax a matter of judgment on which opinions differ among experts. Even on so-called simple returns, the U.S. Commission on Paperwork recently reported (1977:7): "A college level reading ability is required to understand the instruction for the simplest tax form--the Form 1040A."

This growth in complexity has been one of progression. Special sections to close loopholes were added, definitions refined and additional distinctions drawn between taxpayers and types of income. Special interest groups sought exemptions or differential treatment on the grounds of equity or public interest. Tax legislation was used to achieve social ends by awarding tax benefits to favored activities and groups, and special tax burdens to disfavored others.<sup>5</sup> Economic ends have been sought by adjusting tax rates, exemptions, and providing special credits to encourage savings or spending, jobs or investments. Regulatory functions are increasingly embodied in tax

---

<sup>4</sup>Even IRS acknowledges this problem. In a personal interview, an instructor at an IRS school for training revenue agents in the Western Region estimates that agents could find "errors" in 99.9 percent of all tax returns.

<sup>5</sup>These so-called "tax expenditures" have increased at a rate significantly greater than budget expenditures: "In 1968, there were some 40 separate tax expenditure programs involving about \$44 billion. for fiscal 1980, the Congressional Budget Office tax expenditure list includes 96 separate items and involves aggregate revenue costs of almost \$169 billion." (McDaniel, Paul R. "Institutional Procedures for Congressional Review of Tax Expenditures," Tax Notes, May 29, 1979, pp. 659-664.)

legislation from taxing oleomargarine, to requiring registration for wagering activity, requiring the reporting of gambling winnings, to requiring the registration of employee benefit plans (ERISA).

Taxes are paid not only by the taxpayer who receives income subject to tax, but often by employers and others required to withhold the tax at the source. Withholding is required not only of income taxes, but of social security (FICA), railroad retirement and unemployment insurance. In addition, employers are required to pay an employer share on employee earnings--all of which must be individually collected, accounted for, and timely paid to IRS. Special rules apply to many withholding situations including tax on nonresident aliens and foreign corporations (Sec. 1441 IRC 1954), tax-free covenant bonds (Sec. 1451), contributors to state unemployment compensation funds, (Sec. 3302), domestic servants, agricultural labor, income from tips, lotteries, wagering, and bingo, sweepstakes, slot machines, and other gambling winnings. Others, such as corporations, self-employed, and taxpayers with income from sources other than wages are subject to special provisions, including the reporting and payment of "estimated taxes."

Further, the pace of legislative activity seems to have increased. While it used to be several years between major tax statutes, a major piece of tax legislation and numerous special acts affecting the tax code have recently been passed each year. In contrast to the 924 pages in the Internal Revenue Code of 1954, the amendments alone in the Tax Reform Act of 1969 total 308 pages, while the Tax Reform Act of 1976's amendments total an additional 413 pages.

Complexity has both direct and indirect effects upon time series comparisons of tax violations or sanctioning activities. Complexity itself adds to the potential for tax violations, yet makes the burden on IRS for proving criminal violations (rather than simple civil errors) more difficult and time consuming.<sup>6</sup> Conversely, simplification can

---

<sup>6</sup>Reflecting this factor, criminal prosecutions are chiefly in the area of failure to file or failure to report income. Claiming false deductions while undoubtedly more common, is typically disposed of as a civil matter. In the last few years (where data were compiled by methods of evasion), less than 10 percent of criminal tax convictions were for false deduction or credits and recommendations for prosecution also tend to be more often declined. In fiscal 1978, for example, only six percent or 190 out of 1414 total criminal convictions were for this reason, while recommendations for prosecution for false deductions or

produce dramatic changes. IRS reports that as a result of a shift in taxpayer filing patterns to the short form, and the simplification of the forms themselves as a result of the Tax Reduction and Simplification Act of 1977, there was a fifty-eight percent drop in mathematical errors made on the Form 1040A, and a twenty-nine percent decline in mathematical errors on 1040 Forms. (Annual Report:1978:3) While complexity is important in examining serious violations, even simple errors can be drastically affected by changes in the tax laws.

#### CHANGES IN PENALTY PROVISIONS: AN EVOLUTIONARY PROCESS

Penalty provisions have undergone an evolution since the original income tax provisions were enacted in the Tariff Act of 1913. A detailed discussion of changes in the major criminal and civil penalty statutes is found in Appendix B. Five significant changes are singled out for comment here.

First, accompanying the general increase in the complexity of the tax code, the number of specific provisions and behaviors proscribed has dramatically increased. In contrast to the more than fifty criminal offenses in today's Code, the first five revenue acts (from 1913 up to 1924) contained only a single comparable criminal provision. Today not only are more types of behaviors punished, but the multiplicity of penalties permits the same acts or omissions to be punished as separate, multiple offenses.

A second change has been towards increasing severity of physical penalties, though inflation has worked in the opposite direction in reducing the effective amount set for fines. Early criminal provisions were misdemeanor statutes with up to a one year prison sentence, and this was for tax

---

credits represented 12 percent of referrals. (Unpublished internal compute tabulations, IRS Criminal Investigation Division).

Once IRS is intent upon establishing a criminal case, complexity combined with the government's superior resources may work to a taxpayer's detriment. A former IRS Assistant Regional Counsel and Special Assistant to the U.S. Attorney General states: "Many taxpayers who had not thought of defrauding the government find themselves at trial, simply because the laws have grown too complex for the layman." (John Kennedy Lynch, "Basic Criminal Penalties," in G.W. Holmes and J.L. Cox (eds.), Tax Filing, Ann Arbor, Michigan: Institute of Continuing Legal Education, 1973, pp. 1-14.)

evasion. Nonfilers and delinquent payers originally were only subject to civil monetary sanction. Accompanying the increase in both coverage and rates of tax during World War I, nonfiling and delinquency in payment were brought under the criminal code. Tax evasion, however, did not move from being a misdemeanor to a felony until the Revenue Act of 1924 (43 Stat. 343, Sec. 1017(b)). In contrast to physical sanctions, effective financial sanctions have fallen. The maximum fine of \$10,000 has not been increased since 1918 (despite inflation, the rise in average incomes, and tax dollars per violation).

A third, but early change occurred in the treatment of corporate illegality. Originally, only individuals and corporate officers were subject to criminal penalties for tax evasion; the corporation itself was subject only to a civil penalty--albeit \$10,000 rather than the \$2,000 maximum fine under the criminal statute. This was short lived, however. When rates were increased for the first world war, corporations were added to the criminal statute and the amount of fine was increased to \$10,000 for all (see 42 Stat. 1085, Sec. 253 as compared with 39 Stat. 773, Sec. 15(c)9).

Fourth, there has been some movement toward less stringent standards for "willfulness" in criminal tax cases. Change has occurred both in statutes and in their interpretation. Originally, failure to comply with any of the four major duties--filing returns, reporting tax liability, payment of taxes, and withholding (for employers only)--was subject to criminal penalties only if the act or omission was "willful."

For the withholding violations, this is no longer the case. Under Sec. 7215 enacted in 1958, an employer is now subject to criminal sanctions for simple failure to comply. "Congress. . . chose not to make willfulness an essential element of the offense," United States v. Paulton, 540 F.2d 886, 891 (1976), United States v. Gordon, 495 F.2d 308, 310 (1974). The statute explicitly prohibits "lack of funds" as a defense against the charge (IRC 7215(b)). Further, since the illegality defined in this statute is the failure to timely pay employment taxes, ultimate payment of the taxes is irrelevant to the charge. United States v. McMullen, 516 F.2d 917 (1975). In recent years, with an express policy shift, prosecution under this section has increased and is now fourth among tax offenses in frequency of criminal convictions.

In addition to statutory change, court interpretation of existing criminal provisions in other areas has also recently eased the elements required for "willfulness." For many years, courts held that "willful", though not defined by the statutes, required a bad or "evil motive" United



States v. Murdock, 290 U.S. 389 (1933) citing Fellon v. United States, 96 U.S. 699 (1877); see also Spies v. United States, 317 U.S. 492 (1943). More recently some courts had ruled that in a misdemeanor, as contrasted with a felony prosecution, no "evil motive" was necessary, only an intentional action (or omission). Compare Edward v. United States, 375 F.2d 862 (9th Cir, 1967) with Haner v. United States, 315 F.2d 792 (5th Cir, 1963). While rejecting any distinction between standards in misdemeanor and felony cases in United States v. Bishop, 412 U.S. 346 (1973), the U.S. Supreme Court in United States v. Pomponio, 429 U.S. 10 (1976) held that no evil motive was required even under a felony statute (IRC 7206). In the Pomponio case involving "willfully" filing false income tax returns, the Court ruled that there need be only a "voluntary and intentional violation of a known legal duty."

Finally, as we will later see in our examination of enforcement statistics, statutory changes and court decisions have had dramatic impacts on the type of offenders prosecuted for tax crimes. Emphasis has shifted back and forth between prosecuting for evasion to deter the general public, and using the tax statute to punish those suspected of other crimes--racketeers, gangsters, organized crime elements, or others deriving substantial income from illegal activities. (Internal management background memoranda, IRS Criminal Investigation Division.)

Concern in the fifties over racketeering led to the passage of tax measures designed to curb this activity with a resultant shift in prosecution priorities. "A Special Tax Fraud Drive was created in 1951 for the purpose of subjecting every known racketeer to a thorough investigation. . . , and to institute criminal prosecution when warranted." (Annual Report of Commissioner of Internal Revenue, 1951, p. 11).

Emphasis continued for many years on prosecuting taxpayers with illegal sources of income, using their failure to comply with statutorily enacted provisions for registration of firearms and gambling, and payment of special wagering taxes as grounds for prosecution. In a series of U.S. Supreme Court decisions in 1968, Haynes v. United States, 390 U.S. 85 (registration of firearms), Marchetti v. United States, 390 U.S. 39 and Gross v. United States, 390 U.S. 62 (registration and payment of wagering taxes), the court, reversing earlier rulings, held that persons may not be criminally punished for failing to comply with these filing requirements. Such requirements, the Court found, violated a person's Fifth Amendment privilege against self-incrimination. The effect was immediate and many tax prosecutions and convictions were dropped for a time. Only after a ten-year lapse has the IRS Criminal Investigation

Division again "begun investigating violations of the Federal Wagering Tax Law" again. (Annual Report of the Commissioner, 1978:30).

#### STATUTORY CHANGE: IMPLICATIONS FOR DATA ON WHITE-COLLAR CRIME

Statutory changes, combined with changes in court interpretation of the law and changes in agency enforcement policies, make data on the components of indicator totals virtually a necessity. If meaningful time comparisons are to be made, information on the components comprising offense and offender counts is required to sort out changes in offending behaviors from changes in the law and its interpretation.

These types of detailed data are typically available (if available at all), only from internal agency records not from public sources. This poses several problems for research. First, locating what information is available is not always easy. Existing statistical indexes such as the ASI do a woefully inadequate job of covering statistical reports prepared for internal agency use, and agencies themselves rarely have centralized listing of the statistics they compute. Second, records prepared for internal agency use are not always well documented. Even if the documentation was once prepared, it may not be associated with the final report or statistical output. Locating necessary background documents thus poses additional difficulties. Third, the records may be discarded when the agency's immediate need for the information has passed. Federal record retention requirements have not kept pace with the computerized era. Often, (as in the case of IRS), these standards do not require the retention of tabulations and computer files, even though often these have substituted for published reports which formerly were retained.

Thus, first and foremost, to cope with changing definitional requirements in both offense and offender categories, we need detailed data. While summary general indicators are useful, they alone will not suffice. Computerization of many agency record keeping systems has made compiling such levels of detail at least potentially feasible. For IRS, as we will see in the coming section of this report, minute details on a range of indicators are currently compiled which could be utilized in developing a sourcebook or computerized data bank on white-collar crime.

## CHAPTER III

### MEASURING TAX NONCOMPLIANCE: ALTERNATIVE DATA SOURCES AND ESTIMATION TECHNIQUES

Traditional measures of the frequency and character of index offenses and other street crimes are based largely upon victim reports--either from offenses reported to the police, or from victim surveys. Despite many limitations in reporting, recording, and compilation, victim reports provide at least a starting point for estimating crime rates. Large areas of the criminal law, however, are not covered by victim reports--whether because there are not victims in the usual sense (the so-called victimless crimes), or, because of the nature of the offense, victims are unaware they have been victimized. In this latter category fall large segments of white-collar, including tax offenses. Some victims are hesitant to report because they would be implicated in the offense.

Data on enforcement actions, while valuable in studying government response to law infractions, generally do not provide an alternative basis for estimating the extent of such crimes since they are as much or more a product of agency resources and priorities as of offense prevalence. Limited resources prevent many offenses from being adequately investigated; many remain unknown to enforcement authorities. Changes in enforcement trends are as likely to reflect shifts in agency or public priorities as any "real" change in crime rates.

Thus in place of victim reports, alternative data sources and estimation techniques have had to be developed to estimate tax noncompliance. The major types of measures which have been used are listed in Table 3.1. Direct methods include self-reports, bystander and third random investigations, party reports. Indirect procedures involve predictive indices--both criterion and noncriterion based, and residual measures. These six types of measures of income tax violations will be discussed in this chapter. The special problems in separating criminal and other serious tax offenses from "errors" and inadvertent violations will be explored in the following chapter.

#### ESTIMATING TAX NONCOMPLIANCE: THE RANDOM INVESTIGATION

The drawbacks of using enforcement records as a source for estimating offense rates would be reduced if some means were found to draw a "representative sample" of potential violations for intensive investigation. Results from these sample investigations could then be used to estimate actual offense prevalence. Detailed tax investigations of a random sample of persons, locations, or events accordingly provide

TABLE 3.1

MEASURING INCOME TAX NONCOMPLIANCE: ALTERNATIVE DATA  
SOURCES AND ESTIMATION TECHNIQUES

Type of Measure	
A. Direct Measures	
1. Random investigation	Taxpayer Compliance Measurement Program (TCMP)
2. Self-reports	
a. Affirmative	} IRS Master File of tax returns Population surveys on income or tax behavior
b. Negative	
3. Bystander (third party) reports	Withholding and information reports
B. Indirect Measures	
1. Predictive: criterion-based	Discriminant Function (DIF) formula with tax data
2. Predictive: no criterion	Economy/monetary data
3. Residual	Statistics of Income (SoI) in conjunction with National Income Product Accounts (NIPA)

one basis for estimating the extent of tax violations. First employed by IRS in its 1948 Audit Control Program,<sup>1</sup> the use of this technique was expanded with the establishment of IRS's Taxpayer Compliance Measurement Program (TCMP) in 1962. Since then twenty TCMP studies have been conducted covering different tax areas ("Phases") and tax years ("Cycles"). A list of these studies is found in Table 3.2. They cover timely payment of taxes (Phase I), return filing requirements (Phase II), and correct reporting of tax liability on filed returns (Phases III-VII). Future IRS plans call for additional cycles of surveys at three-year intervals in the individual and corporate income tax areas, a second survey of both estate and fiduciary returns in the early 1980's, and the extension of the technique during the next five years to assess compliance with reporting requirements on partnership, employment, gift, excise and small business corporation returns. (TCMP Long-Range Plan [Program Evaluation Plan, pp. 48-50].)

#### TCMP Sampling and Data Collection Procedures

Sampling techniques have varied by TCMP phases. Estimates for nonfilers have been based largely upon canvassing sampled geographic areas. The study of the extent and reasons for delinquent payments was based upon samples of notices and bills issued to taxpayers of unpaid tax balances. Collection Division personnel have carried out the surveys of delinquent accounts and delinquent returns (nonfilers), with the last survey in these areas conducted in 1971.

Errors in the reporting of tax liabilities have been estimated using stratified cluster samples of filed returns. Experienced revenue agents and tax auditors from IRS Examination Division conduct in-depth audits of each of the sampled returns. Detailed checksheets are made out by the IRS examining officer of the amounts reported line by line on the return and the "corrected" amounts after audit. Supplemental information concerning the taxpayer's financial affairs, who prepared the tax return, and what procedures

---

<sup>1</sup>Early uses of the random investigation method to assess tax compliance were the Audit Control Program after World War II, and the Audit Research Program in the early sixties. These included studies of 1948 individual income tax returns, 1949 individual and small corporation income tax returns (including payroll and certain excise taxes), and certain 1960 low income individual income tax returns. (See Farioletti, 1952, 1958; Commissioner's Annual Report 1949, 1950; IRS, The Audit Control Program; IRS Manual Supplement 48G-31 (May 5, 1961) and 48G-35 (February 23, 1962); IRS Document 6457(9-77).)

TABLE 3.2

TAXPAYER COMPLIANCE MEASUREMENT PROGRAM  
PHASES/CYCLESPhase IDelinquent Accounts Survey of Bills and Notices  
and Taxpayer Delinquent Accounts Issued

- (a) Cycle 1 - 455,000 bills and notices and 178,000 TDA's -  
conducted in 1963 (Field Survey)
- (b) Cycle 2 - 600,000 bills and notices and 160,000 TDA's -  
conducted in 1964 (Field Survey)
- (c) Cycle 3A - 1.8 million taxpayers (1.2 IMF, 0.6 BMF) -  
conducted in 1969 (Master File Sample)
- (d) Cycle 4A - 1.8 million taxpayers (1.2 IMF, 0.6 BMF) -  
conducted in 1970 (Master File Sample)
- (e) Cycle 5A - 1.8 million taxpayers (1.2 IMF, 0.6 BMF) -  
conducted in 1971 (Master File Sample)

Phase II

## Delinquent Returns Non-Farm Business Survey

- (a) Cycle 1 - 27,000 taxpayers - conducted in 1963 in the  
Southeast Region only
- (b) Cycle 2 - 114,000 taxpayers - conducted in 1966 in the  
Mid-Atlantic, Southeast, Southwest, and  
Central Regions
- (c) Cycle 3 - 70,000 taxpayers - conducted in 1969 all regions

Phase III

## Individual Returns Filed Survey

- (a) Cycle 1 - 92,000 returns - relating to 1963 returns filed in 1964
- (b) Cycle 2 - 50,000 returns - relating to 1965 returns filed in 1966
- (c) Cycle 3 - 53,500 returns - relating to 1969 returns filed in 1970
- (d) Cycle 4 - 26,000 returns - relating to 1971 returns filed  
in 1972<sup>1</sup>
- (e) Cycle 5 - 55,000 returns - relating to 1973 returns filed  
in 1974<sup>1</sup>
- (f) Cycle 6 - 50,000 returns - relating to 1976 returns filed  
in 1977<sup>1</sup>

---

<sup>1</sup>Surveys included the TCMF Partnership Audit Evaluation Document which gathered data on related partnerships. Cycle 4 was limited to three audit classes, low, business, low non-business itemized and medium non-business, due to budgeting restrictions.

TABLE 3.2

TAXPAYER COMPLIANCE MEASUREMENT PROGRAM  
PHASES/CYCLES  
(continued)

Phase IV

Corporations Returns Filed Survey

- (a) Cycle 1 - 16,000 returns - relating to corporate returns with assets of \$1 to less than \$1,000,000 processed in 1969
- (b) Cycle 2 - 20,000 returns - relating to corporate returns with assets of \$1 to less than \$1,000,000 processed in 1973
- (c) Cycle 3<sup>2</sup> - 33,000 returns - relating to corporate returns with assets of \$1 to less than \$10,000,000 and zero or no balance sheet returns processed in 1978

Phase V

Estate Tax Returns Filed Survey

- (a) Cycle 1 - 4,600 returns - relating to returns filed during the last half of 1971

Phase VI

Exempt Organizations Returns Filed Survey

- (a) Cycle 1<sup>2</sup> - 11,400 returns - relating to the calendar year 1973 and fiscal year 1974 returns<sup>3</sup>

Phase VII

Fidiciary Returns Filed Survey

- (a) Cycle 1<sup>2</sup> - 8,900 returns - relating to returns posted to the master file in 1975

---

<sup>2</sup>Survey is ongoing.

<sup>3</sup>Survey covers only organizations described in Sections 501(c)(3) and 501(c)(4) of the code.

SOURCE: Taxpayer Compliance Measurement Program Handbook, IRS Document 6457.

were used in carrying out the TCMP examination are also included. In the recent (TCMP-Phase III, Cycle 6) survey of 1976 individual tax returns filed in 1977, 190 separate items of information are covered on the checksheet (reproduced at Table 3.3), with additional information required when there is partnership income.

After a TCMP audit is completed, checksheets are administratively reviewed for quality control, and for some surveys a subsample of checksheets and related audit workpapers are examined by IRS's Internal Audit Division to determine whether required TCMP policies and procedures are being properly carried out. Further computer edit checks are run after the data is entered onto computer tape to minimize coding and transcription errors.

### TCMP Estimates of Tax Noncompliance

TCMP sample results provide extremely detailed data on the frequency, amount and character of tax noncompliance and its distribution across taxpayers.

The longest time series of TCMP surveys has been for income tax returns filed by individuals, for which TCMP measures of noncompliance are currently available for 1963, 1965, 1969, and 1973 tax years. In addition a 1971 TCMP survey of certain low income taxpayers was conducted. A sixth survey of 1976 returns has been completed, but tabulations are not yet available.

#### A. Underreporters

Estimates derived from 1963-1973 are summarized in Table 3.4 for three measures of noncompliance: the proportion of returns with tax underreporting errors; the average net tax underreported; and the proportion of total tax liability this underreporting represented. Because large shifts occurred over this ten-year period in the distribution of taxpayers by income levels and return categories, the right-hand panel of Table 3.4 presents what, other things equal, TCMP estimates of noncompliance would have been had the 1973 income or return distribution existed in prior years.<sup>2</sup>

---

<sup>2</sup>A change in category definition further implicates the data. For the 1963 and 1965 surveys, the "standard deduction" return category includes only those filing on the short 1040A form. In later years, it includes all, those with 1040A type characteristics, even if a regular 1040 form was used. (In 1969, there was no Form 1040A.)



TABLE 3.3

**DATA COLLECTION INSTRUMENT FOR TCMP SURVEY  
OF 1976 INDIVIDUAL INCOME TAX RETURNS**

<b>TCMP Individual Audit Evaluation Document - 1976</b>				<b>2. Occupation Code</b>		<b>Data Center Use</b>						
<b>1. Taxpayer</b>				<b>3. Method Used to Examine Return</b>		<b>Field Audit</b>						
						<b>Office Audit</b>						
				Assigned		(1)	(3)	(5)				
				Closed		(2)	(4)	(6)				
<b>PART I - TCMP RELATED DATA</b>												
<b>4. TCMP Return Prepared By</b>	(1) <input type="checkbox"/> No Assistance	Unpaid Assistance	(2) <input type="checkbox"/> IRS Assistance Only	(3) <input type="checkbox"/> IRS Preparation	(4) <input type="checkbox"/> IRS Reviewed	(5) <input type="checkbox"/> VITA Assisted	(6) <input type="checkbox"/> Other					
	Paid Assistance (7) <input type="checkbox"/> CPA                      (9) <input type="checkbox"/> Attorney                      (11) <input type="checkbox"/> Local Tax Service                      (13) <input type="checkbox"/> Other (8) <input type="checkbox"/> Public Acct.                      (10) <input type="checkbox"/> CPA & Atty.                      (12) <input type="checkbox"/> Nat'l. Tax Service						<b>Check One (Where Appropriate)</b> <table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td>(1)</td> <td>(2)</td> <td>(3)</td> </tr> <tr> <td>Yes</td> <td>No</td> <td>N/A</td> </tr> </table>	(1)	(2)	(3)	Yes	No
(1)	(2)	(3)										
Yes	No	N/A										
5. Did preparer sign or stamp return? <span style="float:right">5</span>												
6. Was signature or stamp of preparer legible? <span style="float:right">6</span>												
7. Did preparer enter his/her EIN or SSN? <span style="float:right">7</span>												
8. Did taxpayer use IRS plain language publications listed in Publication 900? <span style="float:right">8</span>												
9. Did taxpayer receive classroom instruction prior to Return Preparation? <span style="float:right">9</span>												
10. If Item 9 is yes, enter year of most recent training: 19____ <span style="float:right">10</span>												
11. Indicate how foreign accounts question was answered. (N/A means "Not Answered") <span style="float:right">11</span>												
12. Did taxpayer(s) actually have a foreign account? <span style="float:right">12</span>												
13. Did activity in foreign accounts lead to a tax adjustment? <span style="float:right">13</span>												
14. If yes, enter portion of total tax change due to adjustment \$ _____ <span style="float:right">14</span>												
15. Was TCMP return the subject of a fraud investigation and/or referral? <span style="float:right">15</span>												
16. Did TCMP examination result in any other fraud investigation and/or referral? <span style="float:right">16</span>												
17. Was income verified or corrected by use of indirect method (Net Worth etc.)? <span style="float:right">17</span>												
18. If a deduction was claimed on Schedule C or F for Employee Benefit Plan, was a Form 5500, 5500-C or 5500-K filed? <span style="float:right">18</span>												
19a. Did taxpayer receive a lump-sum distribution from an employee benefit plan(s)? <span style="float:right">19a</span>												
19b. If yes, was a Form 1099R received? <span style="float:right">19b</span>												
19c. If taxpayer received a lump-sum taxable distribution, was all or part of it a rollover into a qualified plan or an Individual Retirement Savings Program? <span style="float:right">19c</span>												
<b>PART II - CONTROL DATA</b>												
20. Examining Officer's Name		21. Grade		22. Time on TCMP Return		10						
23. Group Manager's Initials		24. Date		25. Form 3628 Reviewed by Group Manager 1. <input type="checkbox"/> Yes      2. <input type="checkbox"/> No								
26. TCMP Reviewer's Initials		27. Date		28. Time		29. Disposal Code						
						30. Closing District Code						
31. Conferee's Initials		32. Date		33. Time		34. Principal Issue Number						
Remarks (Use Reverse of Page 3 for Additional Space)												

TABLE 3.3 (con't - 1)

PART III - TAX BASE DATA										
			(1) Reported	(2) Corrected				(1) Reported	(2) Corrected	
SECTION A - INCOME	Wages, Tips, etc.	35.			SECTION D - EXEMPTIONS	Taxpayer	Regular	74.		
	Dividends	36.					65 or Over, Blind	75.		
	Interest	37.				Spouse	Regular	76.		
	Schedule C (Item 144)	38.					65 or Over, Blind	77.		
	Schedule D (Item 179)	39.				Children	Same Address	78.		
	Form 4797	40.					Different Address	79.		
	Pensions and Annuities	41.				Parents	Same Address	80.		
	Rents (Item 150)	42.					Different Address	81.		
	Royalties	43.				Other Dependents	82.			
	Form 1065	44.				Total (Items 74-82)	83.			
	Form 1041	45.				TAXABLE INCOME				
	Form 1120S	46.				(Item 59 minus 60, 73, 83)	84.			
	Schedule F (Item 172)	47.				FILING STATUS (Code)	85.			
	State Income Tax Refund	48.				<input type="checkbox"/> Not Applicable	86.			
	Alimony	49.				Tax Table	87.			
	Other	50.				Tax Rate Schedule	88.			
	Total (Items 35-50)	51.				Schedule D	89.			
	SECTION B - ADJUSTMENTS	<input type="checkbox"/> Not Applicable	52.				Schedule G	90.		
Moving Expense		53.			Form 4720 (Maximum)	91.				
Employee Business Expense		54.			Other	92.				
Payments to IRA		55.			CREDITS	Elderly	93.			
Payments to Keogh		56.				Investment	94.			
Sick Pay		57.				Foreign Tax	95.			
Other		58.				Child Care	96.			
ADJUSTED GROSS INCOME		59.				General Tax	97.			
(Item 51 Minus 53-58)				Other		98.				
Standard Deduction	60.			NET INCOME TAX	99.					
SECTION C - DEDUCTIONS	ITEMIZED	Deductible 1/2 Medical Insurance Premium	61.			(Item 87-92 Minus 93-98)				
		Other Deductible Medical	62.			Minimum Tax	100.			
		State & Local Income Taxes	63.			Self Employment Tax	101.			
		Real Estate Taxes	64.			Other Taxes	102.			
		Other Taxes	65.			Total (Items 99-102)	103.			
		Home Mortgage Interest	66.			Income Tax Withheld	104.			
		Other Interest	67.			Earned Income Credit	105.			
		Contributions				Estimated Tax	106.			
		Cash	68.			Excess FICA	107.			
		Other	69.			Other	108.			
		Casualty/Theft Losses	70.			Total Credits and Prepayments (Items 104-108)	109.			
		Alimony	71.			BALANCE DUE	110.			
		Other	72.			(Item 103 Minus 109)				
		Total (Items 61-72)	73.			Tax Paid with Return	111.			
SECTION E - TAX COMPUTATION					Balance Due After Payment in Item 111	112.				
					OVERPAYMENT	113.				
					(Item 109 Minus 103)					
					Penalties	114.				
					114a. (1) <input type="checkbox"/> Fraud (2) <input type="checkbox"/> Negligence (3) <input type="checkbox"/> Other					

TABLE 3.3 (con't - 2)

SECTION F				SECTION H				SECTION J			
<b>SCHEDULE C</b> 115. <input type="checkbox"/> Not Applicable				<b>SCHEDULE F</b> 151. <input type="checkbox"/> Not Applicable				<b>SCHEDULE D</b> 173. <input type="checkbox"/> Not Applicable			
P.I.A. Code 116.				P.I.A. Code 152.				Net Short Term Gain (Loss) 174.			
Accounting System 117. (1) <input type="checkbox"/> Single Entry (2) <input type="checkbox"/> Double Entry				Accounting System 153. (1) <input type="checkbox"/> Single Entry (2) <input type="checkbox"/> Double Entry				Net Long Term Gain (Loss) 175.			
								Combine Items 174 & 175 above 176.			
(1) Reported (2) Corrected				(1) Reported (2) Corrected				Section 1202 Deduction Schedule D Line 15a 177.			
Gross Receipts 118.				Gross Receipts 154.				Section 1211 Limitation Schedule D Line 16a 178.			
Less: Returns and Allowances 119.				Plus: Agriculture Program Payments 155.				Total Net Gain (Loss) (Should Equal Item 39) 179.			
Net Receipts 120.				Cash Basis: Less Cost of Livestock or Other Items Sold 156.				PREPARER PENALTIES (1) (2) (3) YES NO N/A			
LESS: Beginning Inventory 121.				ACCRUAL: Less: Beginning Inventory 157.				Was return prepared for compensation? 180.			
Merchandise Purchases 122.				Livestock and Other Purchases 158.				If "yes" - were penalties asserted for:			
Other 123.				Plus: Closing Inventory 159.				Negligent understatement ... IRC-6694 (a) 181.			
Plus: Closing Inventory 124.				Gross Profit 160.				Willful understatement ... IRC-6694 (b) 182.			
Gross Profit 125.				LABOR DEDUCTIONS: Labor Hired 161.				Failure to furnish copy ... IRC-6695 (a) 183.			
Other Income 126.				Repairs, Maintenance 162.				Failure to sign return ... IRC-6695 (b) 184.			
Total Income 127.				Interest 163.				Failure to furnish TIN ... IRC-6695 (c) 185.			
BUSINESS DEDUCTIONS:				Rent 164.				Negotiation of check ... IRC-6695 (f) 186.			
Depreciation 128.				Gasoline, Fuel Oil 165.							
Taxes 129.				Taxes 166.							
Rent 130.				Pension & Profit Sharing Plans 167.							
Repairs 131.				Employee Benefit Plans 168.							
Salaries 132.				Depreciation 169.							
Insurance 133.				Other 170.							
Legal & Prof. Fees 134.				Total 171.							
Commissions 135.				NET PROFIT (LOSS) (Should equal Item 47) 172.							
Amortization 136.											
Pensions & Profit Sharing Plans 137.											
Employee Benefit Plans 138.											
Interest 139.											
Bad Debts 140.											
Depletion 141.											
Other 142.											
TOTAL (Items 128-142) 143.											
NET PROFIT (LOSS) (Should equal Item 38) 144.											
<b>SCHEDULE E -</b> 145. <input type="checkbox"/> Not Applicable											
Rental Income 145.											
Gross Rental 146.											
LESS: Depreciation 147.											
Repairs 148.											
Other Expense 149.											
NET RENTAL INCOME (Item 12) 150.											

## PART IV - EMPLOYMENT TAX DATA

Indicate whether the following returns were required to be filed:

187. Form 940

(1) Yes (2) No

188. Form 941

(1) Yes (2) No

189. Form 942

(1) Yes (2) No

190. Form 943

(1) Yes (2) No

TABLE 3.4  
TCMP PHASE III: INDIVIDUAL INCOME TAX RETURNS

Tax Year	Underreporting of Tax on Filed Returns							
	TCMP				TCMP (Adjusted) <sup>1</sup>			
	Percent of Returns Underreported (1)	Percent of Net Tax Underreported (2)	Average Per Return		Percent of Returns (5)	Percent of Net Tax (6)	Average Per Return	
			Dollars (3)	Constant 1978 Dollars <sup>2</sup> (4)			Dollars (7)	Constant 1978 Dollars <sup>2</sup> (8)
1963	33.1	6.0	\$50	\$107	31.9	4.8	\$71	\$152
1965	33.5	5.2	42	87	32.3	4.1	49	101
1969	40.9	6.4	80	143	39.2	5.5	87	155
1973	39.7	6.7	99	146	39.7	6.7	99	146
Ratio 1973/1963	1.2	1.1	2.0	1.4	1.2	1.4	1.4	1.0

<sup>1</sup>Distribution of returns and tax dollars adjusted so that distribution returns (Col. 5) or taxes (Cols. 6-8) across ten IRS audit categories (classified by level and source(s) of income) for earlier years equal to that occurring in 1973. This adjustment was made to control for charging distribution of taxpayer income levels between 1963-1973.

<sup>2</sup>Dollars expressed in 1978 constant dollars terms to adjust for changes resulting from inflation.

Unadjusted, all three TCMP indices show some increase in measured tax noncompliance over the ten year period. The proportion of returns underreporting tax increased from one in three in 1963 to four in ten in 1973. The proportion of net tax underreported (NCL)<sup>3</sup> increased from 6.0 to 6.7 percent, and the average tax change even after taking inflation into account rose 50 percent.

However, all of the increase in the size of the tax error is accounted for by the movement of taxpayers into higher income brackets. Once this adjustment and inflation is taken into account, the average amount of tax underreported remains roughly unchanged--152 in 1963, 146 in 1973. But, the percent of returns with understating errors, and the proportion of tax underreported show even larger increases after adjustment. Because general reduction in tax rates (Table 3.5) between 1963 and 1973 lowered average tax liabilities (in constant dollars), as a proportion of total tax liabilities, this unchanging amount of tax error translated into an increasing underreporting rate (NCL)--up 40 percent over the ten year period.<sup>4</sup> Also despite rising income levels, more people took the standard deduction in 1973 because of a significant statutory increase in the deductible amount (see footnote a, Table 3.5). Such simple returns have lower rates of error. As a result the unadjusted totals show smaller gains in the proportion of returns with error, than after adjustment.

#### B. Nonfilers

The noncompliance figures in Table 3.4 apply only to those taxpayers who file returns. Less information from TCMP is available on those who do not file. Nonfiler surveys (TCMP Phase 11) focused on that segment of the population deriving income from a business or profession

---

<sup>3</sup>Because some taxpayers overreport rather than underreport, net underreporting represents the difference between aggregate under- and over-reporting. The proportion of next tax underreporting or noncompliance level (NCL) is thus defined:  $NCL = (\text{Tax should have been reported} - \text{Tax reported}) / \text{Tax should have been reported}$ . Or,  $NCL = (\text{Tax underreported} - \text{tax overreported}) / (\text{Tax Reported} + \text{Tax underreported} - \text{Tax overreported})$ .

<sup>4</sup>This reduction in tax liability for taxpayers as a whole does not show up in the unadjusted TCMP estimates of total tax liability because rising income levels moved people into higher tax brackets. The TCMP estimates of the "true" tax liability (in constant dollars) averaged \$1663 in 1963, and \$2024 in 1973.

TABLE 3.5

## INDIVIDUAL INCOME TAX STATUTORY RATE SCHEDULE

Taxable Income (Thousands of Dollars)	Tax Rate (%)	
	1963	1965-1973 <sup>1</sup>
Under 0.5		14
0.5 - 1.0	20	15
1.0 - 1.5		16
1.5 - 2.0		17
2.0 - 4.0		19
4.0 - 6.0	26	22
6.0 - 8.0	30	25
8.0 - 10.0	34	28
10.0 - 12.0	38	32
12.0 - 14.0	43	36
14.0 - 16.0	47	39
16.0 - 18.0	50	42
18.0 - 20.0	53	45
20.0 - 22.0	56	48
22.0 - 26.0	59	50
26.0 - 32.0	62	53
32.0 - 38.0	65	55
38.0 - 44.0	69	58
44.0 - 50.0	72	60
50.0 - 60.0	75	62
60.0 - 70.0	78	64
70.0 - 80.0	81	66
80.0 - 90.0	84	68
90.0 - 100.0	87	69
100.0 - 136.7	89	70
136.7 - 150.0		
150.0 - 200.0		
200.0 and over		
	912	70
Personal exemption <sup>3</sup>	\$600	\$750
Standard deduction: 3 percent of adjusted gross income	10%	15%
Maximum amount	\$1000	\$2000

<sup>1</sup>In TCMP year 1969 only a 10% surtax was applied beginning with the \$1,000 - \$1, subbracket. Beginning in 1971, a separate schedule reduced the tax paid by single persons, in order to limit their tax to an amount not more than 20 percent above the tax of married couples with the same taxable income.

<sup>2</sup>However, subject to maximum effective rate limitations of 87%.

<sup>3</sup>The amount for personal exemptions was raised from \$600 for TCMP years 1963-1969, to \$675 (1971) and \$750 (1973). The standard deduction of approximately 10% of adjusted gross income up to a maximum of \$1,000 for 1963-69 was revised to 15% (maximum \$2,000) by 1973. Both of these increases thus lowered taxable income.

SOURCE: Goode, The Individual Income Tax (Rev. ed.), Table A-10, p. 308. Exemptions and deductions from statistics of income series, 1963-1973.

where it was thought that nonfiling would be highest.<sup>5</sup> Results turned up few nonfilers in these categories. Only one-tenth of one percent of total dollar tax liability among those required to file was estimated attributable to delinquent returns--that is, returns which had not been filed. A somewhat higher proportion of tax returns--rather than dollars--were delinquent, with 3.2 percent of persons receiving business and professional (nonfarm) income and 3.7 percent of incorporated (nonfarm) businesses failing to file as required.<sup>6</sup> The average balance due, however, totaled only \$262 per delinquent taxpayer.<sup>7</sup>

#### Limitations of TCMP-Based Measures of Tax Violations

While information on tax noncompliance from TCMP random investigations proves an exceedingly useful source of data on the frequency and amount involved in tax violations, these measures have limitations. Because the figures are derived from a random sample of income tax audits, they are subject both to the strengths and weaknesses of this measurement method. In the sections that follow, three general areas of weakness will be discussed: (A) limitation in coverage, (B) appropriateness of standards, and (C) reliability of measures.

##### A. Limitations in Coverage

A TCMP-based measure of tax noncompliance reveals noncompliance that is "detectable" with an investigation or audit of the taxpayer. What violations are "detected" varies with the skill and thoroughness of the examining officer or investigator, and how easy the type of violation is to find (leaves an "audit" trail). TCMP estimates measure what would be detected if all returns were audited by above-grade examiners, carrying out a somewhat more

---

<sup>5</sup>The survey included both individuals and incorporated businesses. Farmers, along with governments, certain non-visible businesses, and specified large businesses were excluded. (See IRS Internal document 5624 (Rev. 5-72)).

<sup>6</sup>Delinquency rates were higher on information returns, although rates varied from 1 percent on the W-2 form, to 32 percent on Form 1099 for reporting interest, dividend and other income paid to other persons.

<sup>7</sup>Because some delinquent taxpayers referred for either criminal or civil investigation were excluded from the base figures reported by IRS, these numbers may be somewhat understated. The frequency or effect of these exclusions was not reported by IRS (see its internal Document 5624 (Rev. 5-72)).

thorough than normal audit, but not necessarily the total extent of tax noncompliance. In an audit averaging only 6 hours -- including the time for contacting the taxpayer, reviewing returns, filling out the forms and writing the audit narrative report, plus the actual time investigating the taxpayer's (or others') records -- clearly some tax errors will be missed.

Improper affirmative behaviors (claiming improper deductions or exemptions) probably are easier to detect than the failure to report either income or deductions.<sup>8</sup> Estimates made by a recent IRS study team using a variety of sources of information and "guesstimates" where data were limited or (see IRS Publication 1104) place the proportion of income underreporting missed by TCMP at between 20 and 36 percent of income received from legal sources, but 98 to 99 percent of income from illegal sources.<sup>9</sup> These figures are presented in Table 3.6.

Income underreporting, however, does not mean that the taxpayer failed to report the income in question on the return. "Underreporting" also occurs if IRS changes the classification of reported income -- from capital gains to ordinary gains, exempt interest or dividends to taxable interest or dividends, nontaxable receipts to taxable receipts, etc. Further, the TCMP detection percentage for legal source income is expressly based on IRS assumptions that "approximately two-thirds of the noncompliance detected by the TCMP program in fact fell in the area of underreported income, with only about one-third stemming from overstatement of deductions or other offsets including the expenses of producing Schedule C (professional) or Schedule F (farm) income." (Publication 1104 (9-79), p. 56). While allocation of adjustments between income underreporting and overreporting of deductions or other offsets is complicated, for a variety of reasons the two-thirds/one-third allocation seems high.<sup>10</sup> In the case of self-employment and investment income, the IRS study team

---

<sup>8</sup>A variety of indirect methods are used to reconstruct unreported income and are routinely used in criminal IRS tax investigations; these take much more time than are typically used in a TCMP examination.

<sup>9</sup>TCMP does not provide information separately for illegal source income; thus the 1 to 2% is a pure "guesstimate" by the IRS study team.

<sup>10</sup>The TCMP detection percentage is also a function of IRS estimates of total underreporting. Different assumptions from those used in deriving this overall total could greatly increase or decrease overall underreporting and hence the proportion detected by TCMP.



TABLE 3.6

DETECTABILITY OF INCOME TAX UNDERREPORTING  
ON FORM 1040 AND 1040A RETURNS  
(Estimated for Tax Year 1976)

	Taxes (Dollars in Billions)		
	Total	Legal Sector Income	Illegal Income <sup>1</sup>
Reported	141.8	na <sup>2</sup>	na <sup>2</sup>
Underreported			
Detected by TCMP	11.2 <sup>3</sup>	11.1 <sup>4</sup>	0.1 <sup>5</sup>
Not detected by TCMP <sup>6</sup>	9.1-15.1	2.8-6.3	6.3-8.8
Total Underreported	20.3-26.3	13.9-17.3	6.4-8.9
Percent Detected by TCMP	43-53%	64-80%	1-2%

<sup>1</sup>IRS estimates cover only illegal income from gambling, numbers, drugs, prostitution.

<sup>2</sup>Not available.

<sup>3</sup>Based upon IRS estimates of proportion of tax change resulting from income underreporting in contrast to overstatement of adjustments, exemption, deductions and other offsets. For limitations in IRS allocation methods which may lead to overestimation of TCMP detection of income underreporting, see

<sup>4</sup>IRS assumed that TCMP detected underreporting of 0.4 billion in illegal source income, and that the effective tax rate on this underreporting is the same as on income from legal sources.

<sup>5</sup>See Publication 1104, Tables 3-4, and Appendices E-F for assumptions on which these figures are based.

<sup>6</sup>Does not include tax loss from nonfilers estimated by IRS to be 2.2-2.8 billion in 1976; Publication 1104, Table 3.

SOURCE: IRS Publication 1104 (9-74), "Estimates of Income Unreported on Individual Income Tax Returns," unpublished computer tabulations, TCMP Phase III, Cycles; background files, IRS underground economy study team.

attributes all change in "net" income from TCMP to "income underreporting." At least half of Schedule C and F income appears to arise from disallowance of business expenses and other offsets against disallowance of business expenses, not underreporting of gross receipts.<sup>11</sup> In addition, all these TCMP estimates are based on initial auditors' dollar findings. These may be substantially reduced after appeal (see later discussion and Table 3.7).

Not even "guesstimates" are available on the extent to which TCMP picks up overreporting of tax liability. Because most training and procedures focus on detecting underpayment, TCMP estimates on over-reporting of tax liabilities are probably less accurate than those for underreporting. Overreporting may be more significant than one might suppose. Despite their limitations TCMP audits found over a million people annually overreport their income from wages, and an additional 3.7 million overreport income from other sources. In fact, TCMP estimates more individuals report wages, dividends, rents and farm income than receive taxable income from each of these sources. That is, taxpayers reporting in error exceeded the number failing to report.

---

<sup>11</sup>This is in part a definitional or conceptual distinction in choosing "net" rather than "gross" income. IRS explicitly notes their choice of the net income concept at footnote 12, page 21 of Publication 1104; however, they incorrectly report that for self-employment (Schedules C and F) income, all but 6 percent of the adjustment in net income is attributable to underreporting of gross receipts. While the matter is complicated because of "double counting" when reclassification of income from one line to another occurs during a TCMP audit, reexamination of the original TCMP computer tabulations shows that as much as 60 percent -- not 6 percent -- of the change in self-employment income could be attributable to disallowance of business expenses and other offsets against gross receipts. In the same footnote IRS correctly points out that the majority of rental income adjustments arises from disallowance of business expenses, not underreporting of gross rents; however, again the proportion they attribute to income underreporting appears too low, and the total change in net rents -- not just the part arising from underreporting -- is included in IRS income underreporting totals. Further, the estimation procedure used by IRS in deriving its estimates of the proportion of tax change attributable to income underreporting does not take into consideration the impact of audit reduction in amounts claimed as standard deductions or tax credits, and uses a very conservative estimate of the effect of reductions in itemized deductions.

TABLE 3.7

REGULAR IRS DISTRICT AUDIT FINDINGS AND RESULTS AFTER APPEALS  
(Income, Estate and Gift Taxes)

	Average Additional Taxes and Penalties (\$millions)	
	1973 - 1975	1976 - 1978
<b>Total Audits:</b>		
Initial Auditor Findings	5357 <sup>a</sup>	5184 <sup>a</sup>
Taxpayer Contests	3387 <sup>b</sup>	2998 <sup>b</sup>
% Contested	63%	58%
<b>Final Disposition of Appeals:</b> <sup>c</sup>		
Initial Auditor Findings	2721 <sup>d</sup>	2290 <sup>d</sup>
Revised Amount	807	824
% Revised of Initial Findings	30%	36%
<b>Total Audit Disposals</b> <sup>e</sup>		
Initial Audit Findings	4691 <sup>d</sup>	4486 <sup>d</sup>
Revised Amount	2777	3020
% Revised of Initial Findings	59%	67%
Ratio (initial/revised)	1.69	1.49

SOURCE: Annual Reports of the Commissioner of Internal Revenue; internal management statistics, IRS Report Symbols NO-CP:A-68 and NO-CP:A-257.

<sup>a</sup>Includes reductions initial auditor findings after administrative appeal to the district conference level, which are not included in figures on audit results reported in the Annual Reports of The Commissioner of Internal Revenue. Service center examinations are excluded.

<sup>b</sup>Includes both appeals prior to payment and suits for refund after payment of initial audit claims. (See also footnote d.)

<sup>c</sup>Final dispositions do not reflect outcome of cases appealed from court trial to the US Court of Appeals and US Supreme Court. Amount involved, however, are too small to have any material affect on figures reported.

<sup>d</sup>Adjusted for average of \$573 million (1973-1975) and \$302 (1976-1978) in initial audit claims not otherwise accounted for in dispositions, after allowing for changes in inventory. Because figures for refund suits are not broken down by type of tax, a small amount of disputed employment and excise claims are also included in these dispositions. Small amounts for interest are also included on refund suits in these figures.

<sup>e</sup>Audit disposals include initial auditor findings not contested, and cases finally disposal of after appeal. (Revised figures reflect additional taxes and penalties assessed; shrinkage from collection problems are not included.) Difference between "Initial Findings" under "Total Audit," and "Total Audit Disposals" reflect increases in inventory of cases on appeal.

## B. Appropriateness of Standards

Even in ordinary crimes, uncertainty over the facts--and sometimes over the law itself--makes classification debatable. Many reports by victims to the police, either initially or after investigation, are determined not to constitute crimes. Problems of classification are compounded where an investigator's judgment is substituted for that of a more impartial forum, such as a court. Where the law is itself complex and subject to varying interpretation and offenses are extended to include civil as well as criminal violations, the problems in classifying events becomes all the more difficult.

TCMP estimates for tax noncompliance rely upon the individual judgement of IRS auditors. The reliability and validity of the figures on tax violations thus presume the accuracy of auditor findings. How appropriate are the general standards employed in determining tax noncompliance by IRS auditors? Two important sources of information data which shed some light on this issue: first, results from IRS internal auditor's review of a subsample of checksheets prepared in TCMP surveys, and second, figures on the extent initial auditor's findings correspond with ultimate assessments, after resolution of disputed auditor claims.

Internal Audit Findings on TCMP Audit Quality. Indications from the Internal Audit Division review of completed TCMP audits are that accuracy and quality control in TCMP surveys has been a substantial problem, though the incidence of errors and other procedural irregularities has diminished with succeeding surveys. This division -- a separate branch of IRS which audits internal agency operations -- examined the files in a subsample of TCMP audit cases to determine if required procedures were followed, and entries in each data collection instrument ("checksheet") were correctly made.<sup>12</sup> While internal

---

<sup>12</sup>The Internal Audit Report for the last survey of individual income tax returns for which results have been compiled (Phase III, Cycle 5) states that the review of a subsample of completed TCMP audits evaluated both the quality of the TCMP examination and the accuracy of recorded information through a review of the tax returns and related workpaper case file. "The review included the determination of whether the case files contained evidence that the examining officer (1) considered all items on the return; (2) made adequate probes for unreported income, deductions, and credits; (3) fully documented all adjustments; (4) followed regular procedures with respect to a package audit;

auditor findings from the 1973 TCMP survey found an overall error rate of 32 percent on the subsample of TCMP audits reviewed, this was down considerably from over 65 percent in the review of the earlier 1969 TCMP survey and 61 percent in the 1971 survey.<sup>13</sup> In 1973, 23 percent of the audits showed procedural or technical errors and 13 percent had line items on the checksheet incorrectly filled out. (Respective rates for 1969 and 1971 for line items were 65 percent and 32 percent.) How serious these errors were for the validity of TCMP findings was difficult to ascertain. The study of IRS conducted by the Administrative Conference of the United States (S. Doc. 94-266, p. 153) noted that:

"National office personnel told us that internal audits such as these do turn up substantial error factors, but that these are small errors of no significance to the accuracy of the results. In contrast, staff of an Assistant Regional Commissioner (Audit) stated that there is a high error rate on significant issues among TCMP audits which the national office is reluctant to recognize."

Considerable variation in the error rates was found from one region to another, ranging from 19 to 70 percent for the 1973 survey.

Reductions of auditors' findings on appeal. TCMP findings by and large do not reflect any adjustments to initial auditor findings as a result of taxpayer administrative appeals or court decisions on disputed claims. A comparison of initial auditor findings and final determinations are shown in Table 3.7 for income, gift and estate tax audits in the regular audit program. (Unfortunately figures for appeals from TCMP audits are not

---

(5) considered fraud referrals and the assertion of penalties where applicable; (6) correctly applied 'indirect methods' of determining income, where applicable; and (7) correctly recorded checksheet line items on Forms 3628 Audit Evaluation Document." (Internal Audit Report, North Atlantic Region, TCMP Phase III, Cycle 5, November 7, 1975. Similar statements were in Internal Audit reports for the other regions.) Accuracy is assessed from reviewing case files only; the taxpayer is not recontacted by Internal Audit.

<sup>13</sup>Results for 1969 covered only three districts. Results for 1971 covered 32 districts or 4 out of 7 regions, while the 1973 internal audit covered all 58 districts. Internal Audit results for prior surveys have, unfortunately, been destroyed. No internal audit was conducted of the latest TCMP Phase III survey of 1976 income tax returns.

separately accumulated, nor are the appeal results from the regular program on only individual income tax cases.) Dollarwise, over half of the additional taxes and penalties initially claimed due by IRS auditors after an examination of the taxpayer's return are contested by the taxpayer either through administrative appeals within IRS or through instituting court action (or both).<sup>14</sup> On appeal, two-thirds of these dollar claims were not upheld. Because the taxpayer, not the government, bears the burden of proof when contesting an IRS auditor's findings (see Chapter I), the proportion of dollar claims not upheld upon appeal is all the more surprising.

Even adding those claims which were not contested to the results after appeal, initial claims exceed the final "corrected" amount by fifty percent or more in recent years.<sup>15</sup> Further, it appears that many taxpayers agree to the initial auditor findings not because they believe the auditor was correct, but because of the costs or bother of an appeal, fear of IRS, or lack of understanding. In a study by the General Accounting Office of a random sample of taxpayers whose audits were closed in 1973, only 42 percent stated they understood and agreed with the auditor's findings (GAO Report, 1976a). Cases not appealed typically involve relatively small average tax adjustments where the cost of contesting the auditor's claim exceeds the amount involved. (Wright, 1970; IRS internal management statistics). Further, internal IRS statistics on administrative appeals indicate outcome varies inversely with the amount in controversy. The larger the dollar amount at issue on appeal, the smaller the ratio is between appeal results and initial auditor claims, suggesting in part that taxpayers with more at stake (who therefore can afford better representation) are more successful. Figures presented in Table 3.7, therefore, may reflect an underestimate of the proportion of auditor claims which would be dropped if all cases appealed with adequate representation were available to all taxpayers.

The relative magnitude of the discrepancy between initial auditors' findings (on which TCMP noncompliance estimates are largely based) and final disposition of audit claims presents a serious problem in using TCMP results to estimate the magnitude of actual tax noncompliance. While it is true that the TCMP investigation does not detect all

---

<sup>14</sup> Most cases--in sharp contrast to dollars--are not appealed. In the vast majority of cases, the amounts of additional taxes involved is relatively small. Appeals rise as the amount in controversy increases.

<sup>15</sup> Costs are not presently recoverable even when the taxpayer prevails.

violations, standards employed by IRS auditors also result in a significant proportion of erroneous government claims. TCMP-based estimates thus could be improved, if findings were updated to reflect results from contested auditors' findings.<sup>16</sup>

### C. Reliability of TCMP-Based Compliance Measures

Reliability is a third potential limitation of the TCMP random investigation method. If standards for assessing tax violations in a TCMP examination vary across tax auditors, indices based upon these results will be unreliable. If in addition, variability audit standards is systematically related to factors associated with actual tax compliance, or particular taxpayer groups, IRS offices, or changes over time, TCMP measures may incorporate serious bias.

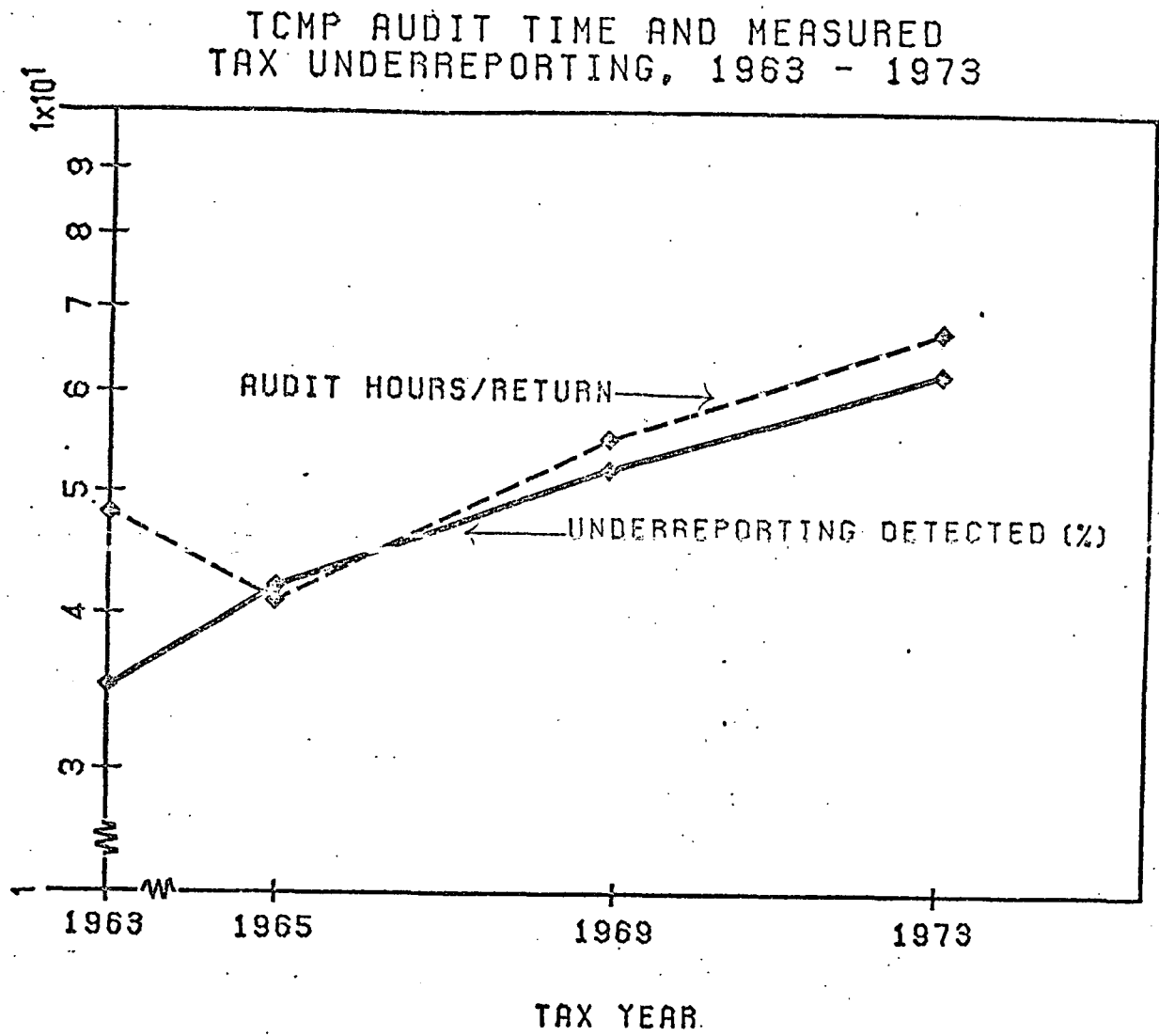
Little information presently exists to assess reliability of TCMP data directly. The importance of the issue in drawing correct inferences from these data, however, is illustrated in Figure 3.1 comparing changes over time in TCMP measures and average length of a TCMP audit. While the measured tax underreporting (NCL) rate (shown earlier in Table 3.4) increased from 1963 to 1973, so did the average length of a TCMP audit. Even after controlling (standardizing) for rising income levels during this period, the average length of a TCMP audit increased 80 percent (from 3.5 to 6.2 hours) -- a rate of increase twice as high as the change in the noncompliance (NCL) rates. This increase in average audit length occurred in every income category and type of return.

---

<sup>16</sup>Because appeal costs are currently a barrier to appeal in smaller cases and even in appeal cases the adequacy of representation is affected by the amount at stake, a pilot program to provide either outside representation or reimbursement for appeal costs (up to some maximum amount) where the taxpayer was successful in reducing the auditor's findings would provide even greater improvement in the validity of TCMP findings over present methods. In addition to more valid measures of noncompliance information on differences between present audit and appeal standards might help pinpoint areas where administrative or legislative changes were warranted.

Updating initial TCMP auditor findings with appeal results would have two drawbacks: cost and added time delays after data collection before final results would be available. (If initial auditor findings were tabulated when they were available, and then later updated with appeal results, no additional delay would be involved.)

Figure 3.1





Improvements have occurred in auditor training during this time period, especially among auditors of lower income business returns.<sup>17</sup> In its study of income underreporting, IRS also notes that "this decline [in TCMP measures of tax compliance] could to some extent have resulted in probable improvements in the ability of IRS to measure voluntary compliance resulting from 'learning by doing' over three TCMP surveys" (Pub. 1104, p. 151).

Ensuring "equal thoroughness" of audits for groups compared is also critical. While the average length of a TCMP audit is higher for higher income levels and more complex business (compared with wage-earner) returns, the average number of hours spent per \$10,000 in tax liability falls sharply as income levels rise (see Table 3.8). Compliance estimates based upon these audits show that higher-income returns average higher error rates and larger tax amounts underreported, but that the average tax change as a proportion of corrected net tax liability falls as income rises (see Table 3.9).<sup>18</sup> Again we are left wondering the extent to which this occurs because of differences in actual compliance levels, or reflects differences in the thoroughness of audits across income groups. Unfortunately, even in the regular audit program little information presently exists on the length of time required to complete a "quality" audit for different types of returns (GAO, August 15, 1979). Clearly, unless an equally thorough audit is performed on all returns, subgroup comparisons will be

---

<sup>17</sup> Personal discussions with the chairman of the IRS Taxpayer Compliance Measurement Program Committee. Because of this increase in thoroughness and length of TCMP audits over time, the recorded increase in tax underreporting may reflect simply changes in TCMP standards rather than any true change in underlying noncompliance.

<sup>18</sup> The choice of grouping criteria are also critical in comparing measured compliance across taxpayer subgroups. Audit categories based upon reported rather than corrected return information are used in TCMP tabulations. While a rational method when the interest is in predicting from reported return information which returns should be audited, use of reported rather than corrected income levels moves less complaint taxpayers into lower income groups. This makes lower income taxpayers appear less complaint. The choice among gross, net, or positive income standards for grouping taxpayers also produces important differences in how compliance is related to income levels. Among business and farm returns, the apparent high NCLs in the lowest income categories disappear if total gross receipts rather than adjusted gross income (net receipts) are used. See internal IRS briefing paper "Study on Redefinition of Examination Classes," undated.

TABLE 3.8

## LENGTH OF TCMP AUDITS BY TYPE OF RETURN, TAX YEARS 1963-1973

Source and Level of Reported Adjusted Gross Income	Length of Audit			
	Hours Per Return		Hours Per \$10,000 in Estimate Tax Liability (Constant 1978 \$'s)	
	1963 <sup>a</sup>	1973	1963 <sup>a</sup>	1973
Total Returns	3	6	12	31
Wage-earners <sup>b</sup>				
Less than \$10,000				
Standard deduction	2	3	25	64
Itemized	2	6	20	87
\$10,000 - \$50,000	3	6	6	17
\$50,000 or more	15	32	2	8
Nonfarm Business or Profession <sup>b</sup>				
Less than \$10,000	11	18	114	258
\$10,000 - \$30,000	13	19	24	56
\$30,000 or more	18	29	5	15
Farm Business <sup>b</sup>				
Less than \$10,000	9	15	149	276
\$10,000 - \$30,000	12	17	23	55
\$30,000 or more	19	30	4	13

TABLE 3.9

TCMP MEASURES OF PREVALENCE AND AMOUNT OF TAX UNDERREPORTING BY CATEGORIES  
OF INDIVIDUAL INCOME TAX RETURNS

Source and Level of Reported Adjusted Gross Income	Estimated Income Tax Noncompliance					
	% of Returns Underreporting Tax Liability		Net Tax Underreporting			
			Average Amount (Constant 1978 \$'s)		Percent of Corrected Net Tax Liability <sup>c</sup>	
	1963 <sup>a</sup>	1973	1963 <sup>a</sup>	1973	1963 <sup>a</sup>	1973
Total Returns	32	40	152	146	5	7
Wage-earners <sup>b</sup>						
Less than \$10,000						
Standard deduction	11	15	23	26	3	5
Itemized	38	50	66	112	6	15
\$10,000 - \$50,000	46	55	173	121	3	4
\$50,000 or more	51	58	2819	1675	4	4
Nonfarm Business or Profession <sup>b</sup>						
Less than \$10,000	50	65	268	497	21	42
\$10,000 - \$30,000	57	68	579	495	9	13
\$30,000 or more	63	69	2683	1751	7	8
Farm Business <sup>b</sup>						
Less than \$10,000	41	60	124	425	16	43
\$10,000 - \$30,000	52	67	568	402	10	11
\$30,000 or more	57	68	5635	2072	10	9

SOURCE: Computed from figures in unpublished computer tabulations, IRS Taxpayer Compliance Measurement Program, Table 000 series.

<sup>a</sup>Note tax liability decreased

misleading. The particular pattern of tax errors and audit intensity observed in TCMP surveys suggests a need for further study of thoroughness requirements.

Variation in standards, as well as in the "thoroughness" of an audit, can introduce measurement bias. Given the wide differences in the aggregate between initial auditors' findings and appeal dispositions, variation in standards among auditors seems probable. Such variation across IRS districts and enforcement officers has been documented in the regular audit program by IRS's own research, as well as that conducted by GAO.<sup>19</sup> Studies, however, have yet to be conducted on variability specifically within TCMP surveys.

In conclusion, while the TCMP random investigation method presents a major and important advance in measuring a wide class of violations, many special problems in assuring validity and reliability remain. At present we lack good information on the magnitude or seriousness of many of these problems. The potential of the TCMP method, however, suggests the value of further work to assess these limits and improve the measurement process.

#### OTHER DIRECT MEASURES OF TAX VIOLATIONS: SELF-REPORTS AND THIRD-PARTY RECORDS

Taxpayers, employers and others are required to file a range of tax returns, information returns, and other reports with the IRS as an aid in tax administration. Such forms are in addition to actual payment or deposit of taxes. Other information about payment or receipt of income is filed with other governmental agencies, such as the Social Security Administration. These sources of official records are supplemented by self-report information from population surveys on sources and levels of income, such as those conducted by the Census (Current Population Survey) and other public opinion polling organizations. In addition

private researchers have also attempted to assess tax compliance through special surveys asking respondents whether they "cheat" on their income taxes. (See Mason and Calvin, 1978; Roth and Ekstrand, 1979; Schwartz and Orleans,

---

<sup>19</sup>See, for example, IRS internal study, "District Returns Selection Study," undated, and General Accounting Office's studies, "Internal Revenue Service Efforts and Plans to Enforce the Employee Retirement Income Security Act," March 28, 1979, and "IRS' Audits of Individual Taxpayers and Its Audit Quality Control System Need to be Better," August 15, 1979.

1967.)<sup>20</sup> These administrative records and self-report survey data provide two further sources of information on possible tax violations.

### Self-Reports

Self reports, either from a single source or matched across several sources, provide one means of estimating tax violations. The simplest indices to derive are measures of the prevalence and seriousness of delinquencies in the payment of assessed taxes. Complete counts are available from IRS's computerized Master Files of taxpayer accounts on which the dates of return filings, tax assessments and payments are recorded. In fiscal 1978 almost 6 million taxpayers--about 43 per 1,000 returns--were assessed "failure to pay" penalties for delinquent or nonpayment of taxes. (IRS Annual Report, FY 1978, p. 95.)

Not only affirmative information, but negative reports--that is, the failure to file--provide useful data in estimating areas of noncompliance. Identities of what the Service refers to as "stop-filers" can be obtained by extracting from IRS computerized Master Files of taxpayer accounts all those failing to file a return for the current tax period. These lists are used as leads by the IRS Service Centers and Collection Division for followup letters and investigations. In fiscal 1978, IRS secured 1.05 million returns and assessed an additional \$988 million through this method; and 1.2 million stop-filer cases are estimated to have been investigated in fiscal 1979 (IRS internal briefing paper on the Subterranean Economy).

This source of information suffers from both under- and over-identification. Taxpayers who have improperly but consistently failed to file a return in past years (or taxpayers who are required to file for the first time but do not comply) are not identified by this method. On the other hand, "stop-filers" include many legitimate nonfilers--persons who died during the last year, corporations who went out of business, or persons whose incomes fell below filing requirements. Also, a certain amount of over-counting occurs because of changes in filing units through marriage, corporate mergers, etc., which appear as "stop-filers" on

---

<sup>20</sup>IRS is currently investigating the potential usefulness of survey responses in evaluations; both the extent of and reasons for noncompliance. (For a description of the current Westat, Inc., see Roth and Ekstrand, 1979.) Other efforts have been too fragmentary thus far to use as a basis for national estimates, and underlying reliability and validity of self-reports in this area have not been adequately examined.

the tax records because of inadequate cross-referencing. Over- but not under-identification problems can be remedied by supplementing Master File information with outcomes from followup investigations. Unfortunately, current enforcement statistics do not provide a valid basis for estimating even this nonfiler component since cases for followup examination are selectively, not randomly, chosen.

#### Matching Self-Reports and Third-Party Information

The potential utility of self-reports are expanded when combined (matched) with information reported by third parties. "U.S. employers, financial institutions, and other organizations must disclose to the IRS most of the significant income earned in the United States or abroad by individual and corporate U.S. taxpayers. Income sources included within this requirement are wages, dividends, interest, fees, rents, royalties, commercial fishing crew shares, certain gambling winnings, amounts of \$600 or more paid to contractors, subcontractors, consultants, and direct sales personnel who are treated as self-employed by their payers, etc." (Owens, 1978:5). Matching this third-party information with income reported by taxpayers on their returns provides another method of estimating the accuracy and completeness of tax return filings.<sup>21</sup>

Statistics are not currently compiled by IRS which would permit estimating components of noncompliance from matching of information documents with filed returns. Current matching efforts have been limited by cost factors and technical difficulties in perfecting "matches." Until recently no matching program existed for business returns, and only some information documents were matched in the individual returns filed area. Further, of those documents that are matched, compiled statistics exclude many cases dropped for administrative or technical reasons and accordingly are not representative. Thus, even these limited data cannot be blown up or extrapolated to some wider universe.<sup>22</sup>

---

<sup>21</sup>But certain types of income from these sources are excluded from information reporting requirements (for example, "interest paid on some bearer instruments and certain payments of less than \$600").

<sup>22</sup>The present Information Return Program takes about three years to complete, after information returns are received. A pilot program to match about one percent of 1977 information returns reflecting payments to businesses has recently been initiated. While a limited matching program has existed for payments to individuals for many years, only a token proportion of information returns filed on paper--5% or less--were covered, though all returns filed

Future prospects are brighter. Spurred by the interest of Congress, and changes which have increased the proportion of information returns which are available on magnetic tape (thus avoiding much of the costly step of transferring paper records to computerized form), IRS has recently increased its efforts in the information matching area. A limited research effort was also undertaken involving the 1975 Information Returns Program (IRP) to provide results from a truly random sample of records; results, from this research program however, have not yet been compiled.<sup>23</sup>

While evaluation of the usefulness of this approach will have to await more and better data, several preliminary conclusions can be made. First, information documents and information of withholding deposits exist on those sources of income where reporting appears to be most accurate, not those where the information is most needed. Estimates made by the IRS study group on the subterranean economy, reprinted at Table 3.10, show that income reporting is highest where there is both tax withholding and information reports, next highest where there is information reporting only, and lowest where there is neither. Even areas covered by information reporting have some limitations in coverage. For example, there is over \$8 billion more interest reported as income on returns than was covered by information returns. This does not mean that information returns cannot provide very valuable information in assessing areas of noncompliance, only that there are important limits in coverage.<sup>24</sup>

On the other hand, data that are available point up the importance of examining overpayment of taxes, as well as underpayment, when measuring compliance. The majority of

---

on magnetic tape were included. The proportion of Information Returns filed on magnetic tape has steadily increased over the years, reaching 55% in 1978. With "Combined Annual Wage Reporting," IRS anticipates even greater coverage. Paper matching has also recently increased from 5 to 10 to now 15%.

<sup>23</sup>Unmatched aggregate totals from employer statements of deposit and W-2 forms attached to individual income tax returns were used by one IRS study group on the subterranean economy in estimating upper limits on unreported wage income. See, Pub, 1104, p. 5, 1103.

<sup>24</sup>While the existence of withholding and information reporting requirements may bring about higher compliance, differences in the complexity and uncertainty concerning tax requirements must also be taken into consideration in accounting for the difference across categories shown in Table 3.10.

TABLE 3.10  
Estimated Amount of Unreported Income for 1976  
As Percent of Reportable Amount, By Type of Income

(Amounts in Billions)

<u>Type of Income</u>	<u>Reportable on Tax Returns</u>	<u>Amount of Income*</u>	
		<u>Reported on Tax Returns</u>	<u>As a Percent of Amount Reportable*</u>
		<u>Total<sup>1</sup></u>	
Legal-source incomes:			
Self-employment	\$ 93-99	\$ 60	60-64%
Wages and salaries	902-908	881	97-98
Interest	54-58	49	84-90
Dividends	27-30	25	84-92
Rents and royalties	9-12	6	50-65
Pensions, annuities, estates, and trusts	31-33	27	84-88
Capital gains	22-24	19	78-83
Other	<u>9-10</u>	<u>7</u>	70-75
 Total	 1148-1172	 1073	 92-94

\*Sum of components may not add to totals due to rounding. Percents of amounts reportable were computed from unrounded figures.

SOURCE: IRS Publication 1104 (9-79), Table 2. See original source for further details on the estimation methods used.



nonfilers identified by the information returns programs had refunds coming to them, rather than any net liability. The average refund due was around \$700 to each of over 600,000 taxpayers for the most recent two-year period (1974-1975) for which data are available.<sup>25</sup>

### The Exact Match File

Outside of IRS, efforts have also been made to match information on income available from surveys or governmental records. A number of efforts to merge data from several sources using "synthetic matches" have been undertaken (see Bergsman, 1978; Barr and Turner, 1978; Pechman and Okner, 1974).

Efforts to create "exact match" files on income have been undertaken in the past, involving IRS and Social Security data, and Social Security and Census data (see Tissue, 1977; Bixby et al., 1975; Buckler and Smith, 1978; Cook, 1978). The first large-scale attempt to create three-way "exact match" file from Census, Social Security, and IRS income tax records was jointly undertaken by the Social Security Administration and the Bureau of the Census in the "1973 CPS-IRS-SSA Exact Match Study" (see Kilss and Scheuren, 1978). Using individuals covered in the March 1973 Current Population Survey (CPS), which included a question soliciting social security numbers, these data were merged with continuous work history and benefit information from Social Security files, along with selected tax information extracted from IRS Master Files of taxpayer accounts and returns. The merged file covers approximately 100,000 persons aged 14 or older. Both the process of linking data, and strengths and weaknesses in the resultant data file, are discussed extensively in references cited in the Kilss-Scheuren, 1978 paper.

While the utility of this file extends far beyond questions of estimating tax noncompliance, the General Accounting Office in a recent study of nonfilers used the Exact Match file to derive estimates of the number of nonfilers, their distribution by income levels, and the amount of taxes not reported. (See GAO, GGD-79-69, July 11, 1979.) The GAO estimated that about 5 million people owing some \$2 billion in income taxes did not file in 1972--representing about 7 percent of taxpayers required to file, and 2 percent of income taxes reported on filed returns. As the average liability--approximately \$400--indicates, most of the estimated nonfilers fell into the lower income brackets (see Tables 3.11 and 3.12 reprinted from the GAO

---

<sup>25</sup>Overall, however the average underpayment exceeded the average underpayment, so that additional assessment, exceeded a months refunded.

TABLE 3.11

U.S. RESIDENT CIVILIAN NONINSTITUTIONAL ADULT POPULATION:  
NUMBER OF POTENTIAL INDIVIDUAL INCOME TAX  
FILING UNITS FOR 1972

Gross income	Maximum income assumption--adjusted								
	Total tax units			Tax units filing tax returns			Tax units not filing tax returns		
	Total	Units	Units	Total	Units	Units	Total	Units	Units
	units	required	not	units	required	not	units	required	not
		to file	required		to file	required		to file	required
			to file			to file			to file
					(thousands)				
Total	114,648	68,076	46,572	74,364	62,782	11,582	40,284	5,924	34,990
\$									
0	20,777	0	20,777	720	0	720	20,057	0	20,057
1 - 999	16,581	303	16,278	5,178	145	5,033	11,403	158	11,245
1,000 - 1,999	8,022	686	7,336	4,969	443	4,526	3,053	243	2,810
2,000 - 2,999	5,786	3,971	1,815	4,303	3,215	1,088	1,483	756	727
3,000 - 3,999	5,055	4,732	323	4,091	3,907	184	964	825	139
4,000 - 4,999	4,892	4,853	39	4,167	4,136	31	725	717	8
5,000 - 5,999	4,577	4,577	0	4,101	4,101	0	476	476	0
6,000 - 6,999	4,436	4,436	0	4,031	4,031	0	405	405	0
7,000 - 7,999	4,536	4,536	0	4,188	4,188	0	348	348	0
8,000 - 8,999	4,235	4,235	0	4,002	4,002	0	233	233	0
9,000 - 9,999	4,825	4,825	0	4,588	4,588	0	237	237	0
10,000 - 10,999	4,190	4,190	0	3,999	3,999	0	191	191	0
11,000 - 11,999	3,472	3,472	0	3,363	3,363	0	109	109	0
12,000 - 12,999	3,324	3,324	0	3,221	3,221	0	103	103	0
13,000 - 13,999	2,734	2,734	0	2,668	2,668	0	66	66	0
14,000 - 14,999	2,393	2,393	0	2,337	2,337	0	56	56	0
15,000 - 16,999	4,210	4,210	0	4,129	4,129	0	81	81	0
17,000 - 19,999	3,977	3,977	0	3,892	3,892	0	85	85	0
20,000 - 23,999	2,900	2,900	0	2,814	2,814	0	86	86	0
24,000 - 29,999	1,946	1,946	0	1,896	1,896	0	50	50	0
\$30,000 +	1,816	1,816	0	1,749	1,749	0	67	67	0

SOURCE: GAO Report GGD-79-69, July 11, 1979.

TABLE 3.12

U.S. RESIDENT CIVILIAN NONINSTITUTIONAL ADULT POPULATION:  
NUMBER OF POTENTIAL INDIVIDUAL INCOME TAX  
FILING UNITS FOR 1972

Minimum income assumption--adjusted									
Gross income	Total tax units			Tax units filing tax returns			Tax units not filing tax returns		
	Total units	Units required to file	Units not required to file	Total units	Units required to file	Units not required to file	Total units	Units required to file	Units not required to file
(thousands)									
Total	114,649	63,835	50,814	74,364	59,725	14,639	40,285	4,110	36,175
\$ 0	25,060	0	25,060	2,672	0	2,672	22,388	0	22,388
1 - 999	17,030	214	16,816	5,721	81	5,640	11,309	133	11,176
1,000 - 1,999	7,583	370	7,213	5,252	224	5,028	2,351	146	2,185
2,000 - 2,999	5,287	3,816	1,471	4,302	3,206	1,096	985	610	375
3,000 - 3,999	4,726	4,501	225	4,030	3,846	184	696	655	41
4,000 - 4,999	4,628	4,608	20	4,070	4,053	17	558	555	3
5,000 - 5,999	4,446	4,446	0	4,050	4,050	0	396	396	0
6,000 - 6,999	4,264	4,264	0	3,966	3,966	0	298	298	0
7,000 - 7,999	4,323	4,323	0	4,051	4,051	0	272	272	0
8,000 - 8,999	4,079	4,079	0	3,883	3,883	0	196	196	0
9,000 - 9,999	5,520	5,520	0	5,302	5,302	0	218	218	0
10,000 - 10,999	3,869	3,869	0	3,754	3,754	0	115	115	0
11,000 - 11,999	3,235	3,235	0	3,147	3,147	0	88	88	0
12,000 - 12,999	3,114	3,114	0	3,028	3,028	0	86	86	0
13,000 - 13,999	2,533	2,533	0	2,495	2,495	0	38	38	0
14,000 - 14,999	2,212	2,212	0	2,168	2,168	0	44	44	0
15,000 - 15,999	3,807	3,807	0	3,728	3,728	0	79	79	0
17,000 - 19,999	3,547	3,547	0	3,493	3,493	0	54	54	0
20,000 - 23,999	2,430	2,430	0	2,373	2,373	0	57	57	0
24,000 - 29,999	1,585	1,585	0	1,556	1,556	0	29	29	0
\$30,000 +	1,408	1,408	0	1,366	1,366	0	42	42	0

SOURCE: GAO Report GGD-79-69, July 11, 1979.

report, giving the estimated income distribution under maximum and minimum income assumptions). The estimated median income for nonfilers fell somewhere in the \$4,000-\$5,999 range, depending upon assumptions.

A number of critical assumptions were required, in combination with the Exact Match File itself, to derive these estimates (see discussion of these provided in the GAO report, Appendix 11). One of these assumptions was the decision, in estimating tax liability, not to allow any offset for potential taxes withheld. Using alternative assumptions (principally, that wage income of nonfilers was subject to 80 percent withholding), IRS estimated on the basis of the Exact Match File that only \$0.9 billion in taxes were owed, or only \$18 per estimated nonfiler.<sup>26</sup>

Despite their differences, both GAO and IRS estimates of the nonfiler area indicate that, relative to other sources of noncompliance, the nonfiler area seems relatively insignificant. Such conclusions must remain tentative given the gaps in our current information. The use of the Exact Match File itself, however, illustrates both some of the potentialities and problems with matching self-report and third-party information to derive estimates of tax noncompliance.

#### ESTIMATING TAX NONCOMPLIANCE: PREDICTIVE INDICES

An alternative approach to measuring tax compliance uses indices which, while not measuring tax noncompliance directly, are highly correlated with noncompliance. Most attention has been given to predictive indices based upon:

---

<sup>26</sup>Despite this lower estimate based on the Exact Match File, IRS's total estimate of unpaid taxes of nonfilers was 65 percent higher than that amount (approximately comparable to GAO's lower estimate after adjusting for difference in year involved). IRS upped its estimate after assuming that the Exact Match File's coverage probably missed most illegal aliens, and failed to reflect cash wages of completely off-the-books delinquent nonfilers. (See IRS Publication 1104.)%1

These IRS estimates were largely "guesstimates," since hard data was unavailable. Publication 1104 adjusts figures forward from 1972 to 1976. For comparability, with the GAO report, figures discussed above are in terms of unadjusted 1972 amounts. IRS also derived a higher upper bound based upon different sources and procedures.

(1) monetary data and (2) tax return information.<sup>27</sup> The first type are based upon the presumption of a relationship between "excess" demand for currency and unreported income; the second are developed from actual empirical relationships between tax return filing information and direct measures of tax underreporting.

### Monetary Based Indices of Unreported Income

Evidence of inexplicably large and growing amounts of currency are well documented; more debatable are what this evidence signifies vis-a-vis tax noncompliance. There is a large amount of currency in circulation--\$100 billion in notes and coin in 1979. Estimates of how much of this currency is held by individuals (rather than by businesses, other organizations, or persons from foreign countries) vary, but are on the order of \$600 to \$1,000 per household, or \$500 to \$600 per adult. Second, the amount of currency in circulation has been growing--up from roughly \$30 billion two decades ago (Klein, 1979). Despite the increasing use of checks and charge accounts in economic transactions, the rate of growth in currency has exceeded growth in demand deposits (checking accounts) but not personal outlays (compare Figures 3.2a and 3.2b). Most rapid has been the increase in large denomination currency (\$100 bills) in circulation which has grown faster than the volume of final sales (see Figure 3.3).<sup>28</sup>

---

<sup>27</sup>Measures of informal economic activities, sometimes referred to as the "irregular economy" (Ferman et al., 1978), have also been suggested as an alternative index of tax noncompliance. The assumption is that such activity is engaged in to avoid payment of income taxes, at least on that income so desired is not reported.. (Activities outside regularly established business or market transactions--such as barter, self-employed moonlighters, self-employed casual laborers--existed long before the enactment of income tax statutes (see Iazo, 1933). Information on the extent of the irregular economy or its relationship to tax noncompliance are largely absent. There have been limited efforts to develop indices in this area. (See, however, some preliminary efforts of IRS to develop estimates (Pub. 1104, Appendix G).)

<sup>28</sup>Final sales (equivalent to GNP - changes in inventory) used in Figure 3.3 is a more inclusive base than personal outlays (minus imputations) used in Figure 3.2 since final sales include outlays (purchase) by other than those in the personal sector (e.g., business, government, etc.).

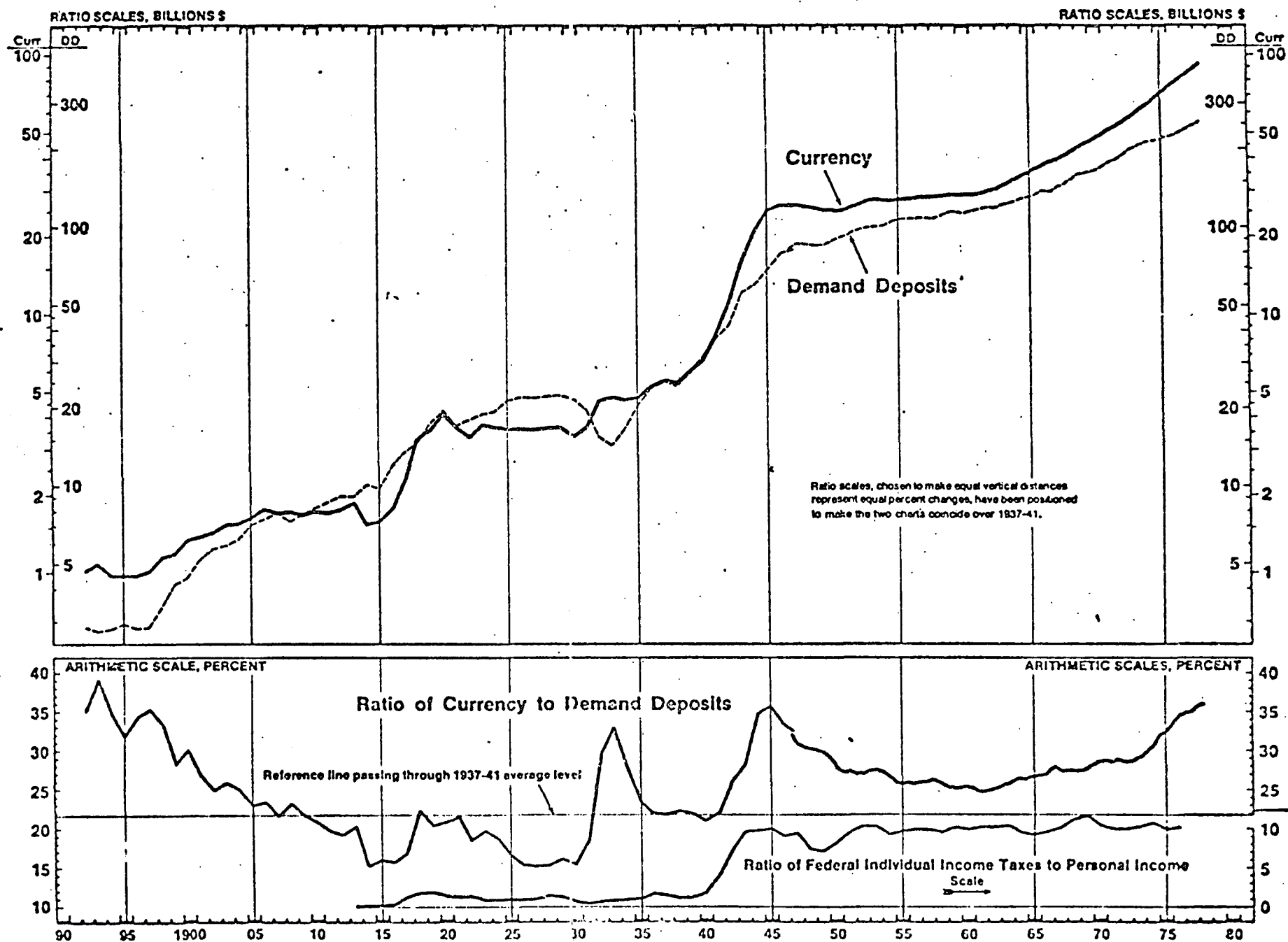
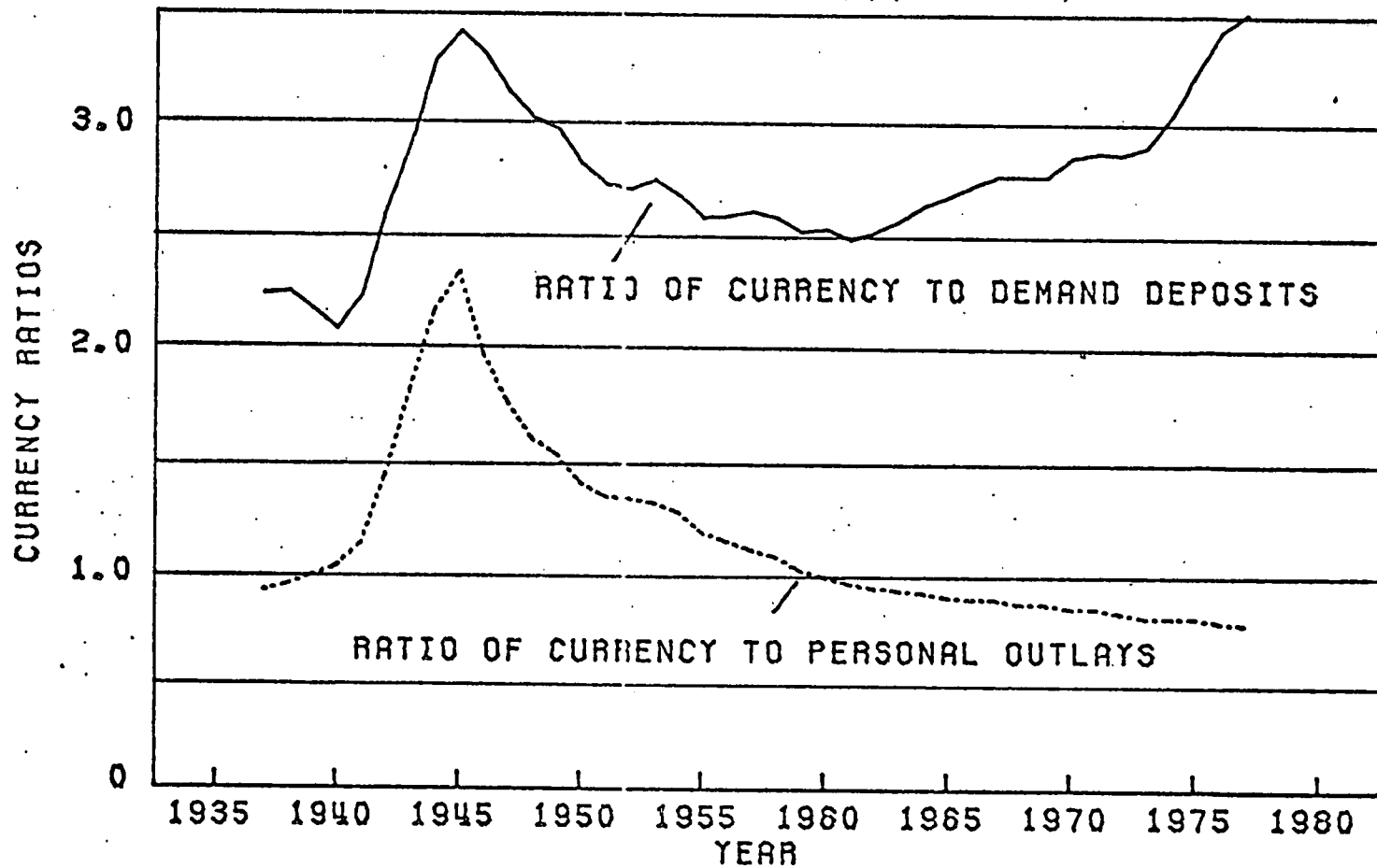


FIGURE 3.2A

Relationships of Currency Outside Banks to Demand Deposits; and Tax Ratio

FIGURE 3.2B

RATIO OF CURRENCY TO DEMAND DEPOSITS VS. PERSONAL OUTLAYS  
1937 - 1977



Source: worksheets provided by the Bureau of Economic Analysis.

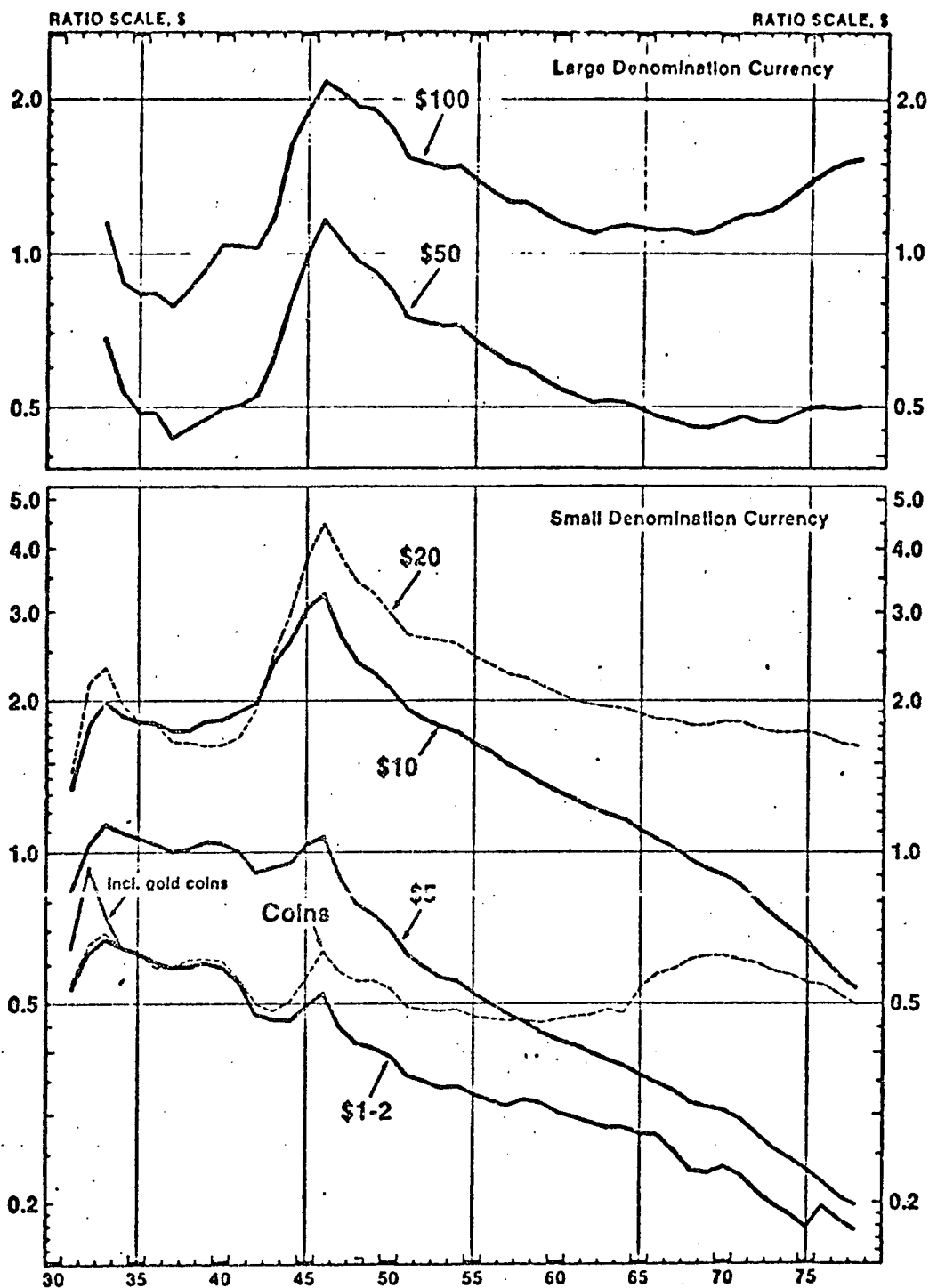


FIGURE 3.3 Currency in Circulation  
by Denomination, per \$100 of Final Sales

Source: reprinted from IRS Publication 1104.



### A. Alternative Estimation Procedures

A number of economists have attempted to use monetary data to develop an estimate of tax noncompliance. All of the estimates are based upon the assumption that "excess" demand for cash is produced by persons desiring to hide income generating transactions (both legal and illegal) on which no payment of taxes are made. Estimates vary in how "excess" currency is determined and how this "excess" estimate is translated into income tax underreporting.

Gutmann (1977), for example, rests his estimate on the ratio of cash to checking deposits. Using 1937-1941 as his base or normal period, he calculates the amount of currency which would be held today if no change in this cash/checking account deposits ratio had occurred. The "excess" amount of currency held over this estimate is translated into \$176 billion in unreported income in 1976, by assuming that each dollar of this excess currency represents "Q" times as much unreported income from the "underground economy" (where Q is the ratio between GNP and the money supply [cash plus demand deposits]). More recently, Feige (1979) derived an estimate of unreported income of between \$226 to \$369 billion for 1976. In contrast to Gutmann's method, Feige uses the ratio between total transactions (money supply x velocity of money) and income. Assuming the ratio in 1939 to be "normal," Feige attributes the increase in this ratio to unreported income from the irregular economy not reflected in reported GNP.<sup>29</sup> Henry (1976) uses the amount of large denomination currency not attributable to normal economic transaction needs to derive an estimate of \$80 billion in unreported income attributable to this single source alone.

---

<sup>29</sup>The estimate is based upon the assumed constancy of the ratio: (total transactions) (income), where income = (reported GNP + unreported income). For his estimate of \$226-\$369 billion, Feige assumes unreported income to be zero in 1939. Because total transactions are not measured directly, several assumptions are required in the derivation of velocity of currency. Changes in one of these assumptions (i.e., the average transaction life of paper money) produces the variation in his estimate of \$226 to \$369 billion dollars. Based upon the same method, his estimate for 1978 is \$542 to 704 billion, or up to one quarter of the reported GNP. Feige notes that slight changes in other assumptions could alter his estimates by several \$100 billion.

## B. Shortcomings of Currency-Based Approaches

Monetary-based indices of tax noncompliance (unreported income) share a number of serious shortcomings. First and foremost, there is no independent means to verify the assumed connection between changes in monetary relationship and income underreporting. People have many reasons for holding currency or making cash transactions apart from tax evasion motives.

Second, there are a large number of other plausible factors which could explain changes in any of the monetary relationships which have been used. Changes in the turnover rates or transaction velocity of cash and demand deposits, changes in foreign holdings of currency or in currency "hoarding," changes in cash management and monetary practices (such as introduction of Repurchase Agreements (RPs), use of credit cards, NOW accounts, etc.), are a few of the alternative explanations which have been cited in the economic literature. Examining the ratio of currency to demand deposits, for example, it has been shown that the ratio has increased apparently not because of a rise in currency over historic trends, but a corresponding fall in demand deposits (see IRS Pub. 1104, Figure 3). For a number of these alternative influences, there exist little if any reliable data on either their magnitude or change over time, thus complicating attempts to incorporate these factors directly into the estimation procedure.<sup>30</sup>

Third, monetary-based indices of noncompliance are also highly unstable. Small changes in the base period, measurement error, or other assumptions produce very large changes--often on the order of a hundred billion dollars or more--in the estimates. For example, if Gutmann had used a base period of 1935-1939 or 1925-1929 (instead of 1937-1941), his procedure would result in an estimate of

---

<sup>30</sup>See Anderson (1977, 1966), Laurent (1979, 1970), Goldfeld, 1976; Paulus and Axilrod, 1976, Porter and Thurman (1979), Porter and Mauskopf (1978), Garcia (1978), Gutmann (1978, 1979), Cagan (1965, 1958), Porter (1979), Molefsky (1979). Appendix B, IRS Pub. 1104 and IRS background files on underground economy. McDonald, 1956, Kaufman, 1965.

Monetary-based indices of noncompliance focus upon tax violations from income underreporting. Understatement of tax liability can also occur because of overstatement of deductions, expenses, etc. (see footnote ). Some monetary-based indices, such as Gutmann's, estimate only one subtype of income underreporting--that related to unreported cash transactions.

\$165 billion or \$262 billion, rather than \$176 billion (Pub. 1104, p 48); Feige notes that changes of \$100 billion or more in his estimates result from slight changes in his assumptions. Such sensitivity is probably inherent in monetary-based indices of tax underreporting because effects of relatively small changes in estimated "excess" cash holdings are magnified by the multiplier (transaction velocity, ratio between money and income, etc.) used to translate cash into income generated over the course of a year.

#### Predicting Noncompliance from Tax Return Information

Detailed information about sources and patterns of income and deductions<sup>31</sup> are available from tax returns. Predicting tax noncompliance ("unobserved tax behavior") from return information ("observed tax behavior") capitalizes on the fact that certain types of reported income or deductions are more prone to "error," or that certain atypical or inconsistent combinations of reported items and amounts are empirically associated with the existence of unreported items.<sup>32</sup>

##### A. DIF Formulae Developed by IRS

Using the data file of tax returns and audit results from the Taxpayer Compliance Measurement Program, IRS has developed discriminant function (DIF) formulas to predict tax underreporting from return characteristics.<sup>33</sup> Returns are divided into subgroups (audit classes) on the basis of amount and sources of income, and a separate DIF formula is developed for each return class. These are updated with data from each succeeding TCMP survey (cycle).

---

<sup>31</sup>Having items on one's tax profile which are statistically more prone to error may reflect a taxpayer's greater opportunity for noncompliance, or a taxpayer's greater vulnerability to audit adjustments. The latter may arise from statutory requirements or the difficulty or cost of proving required facts for those items.

<sup>32</sup>For simplicity I am using "deductions" as a generic term to cover items--expenses, exemptions, deductions, credits and other adjustments--subtracted from gross income to derive taxable income.

<sup>33</sup>Recently the GAO recommended developing predictive formula in the nonfiler area, and investigated its feasibility in a pilot effort. See GAO Report GGD-79-69, July 11, 1979.

IRS uses these formula to score returns as they are filed. Returns with high DIF scores are placed in an audit (DIF) inventory where they are requisitioned by field offices of the Examination Division as needed. (Manually screened requisitioned returns are then to determine whether the return in question should actually be assigned for audit.) While many other reasons besides a high DIF score can bring about the audit of a return, in the individual income tax return area DIF scores currently provide the principal means for initial audit screening and selection (see Table 3.13). Furthermore, the proportion of returns with high DIF scores within an IRS region of district is used as a index of tax compliance in determining the geographic allocation of enforcement resources.

Figures 3.4 through 3.7 geographically display the proportion of high DIF score returns in IRS districts for wage-earners filing Form 1040 or 1040A income tax returns in 1975.<sup>34</sup> A separate map is presented showing gradations above and below the U.S. average for each of four return classes: low income (standard deduction), low income (itemized), middle income, and high income wage earners. (Persons receiving business, professional or farm income are excluded.) Both the variation and geographic patterning in the proportion of high DIF score returns across IRS districts is notable. Table 3.14 gives values by regions and the high and low district range for each return class. Absolute values cannot be meaningfully compared across return classes because different DIF formula and cutting points are used for each return class. The southwestern states (and especially southern California) generally have the highest index values, with lower scores in the central, midwest, mid-atlantic and northeast (with occasional exceptions). The pattern, however, shows surprising differences for different income categories; pearson correlations of district scores across return classes range between .19 and .77, thus accounting for from .04 to .59 of the variance (see Table 3.14, bottom panel).

#### B. Limitations of DIF Scores as Indices of Tax Compliance

In comparison with monetary-based indices of noncompliance, indices based upon DIF formula have the advantage of being empirically linked to direct measures of tax underreporting. Thus, their validity and reliability can at least partially be subject to empirical examination. Obviously, the value of DIF-based noncompliance measures critically depends upon the quality of the original TCMP noncompliance measures on which they were based. DIF

---

<sup>34</sup>The computer-generated maps were prepared by the author from unpublished tabulations furnished by the IRS.

TABLE 3.13

## IRS AUDITS OF INCOME TAX RETURNS FILED BY INDIVIDUALS, FISCAL 1978

Return Class: Source and Level of Reported Adjusted Gross Income	Number of Audits by Source (Thousands)			Additional Tax and Penalties by Source of Audit (Millions)		
	TOTAL	DIF Selected <sup>a</sup>	% DIF Selected <sup>a</sup>	TOTAL	DIF Selected	% DIF Selected
<b>Wage-earners<sup>b</sup></b>						
Less than \$10,000						
Standard	179	124	69	75	23	30
Itemized	308	244	79	153	49	32
\$10,000 - \$15,000	289	220	76	177	71	40
\$15,000 - \$50,000	508	393	77	211	117	56
More than \$50,000	82	30	37	308	88	29
Subtotal	1,366	1,010	74	923	348	38
<b>Business, Farm and Professional<sup>b</sup></b>						
Less than \$10,000	138	81	59	179	61	34
\$10,000 - \$30,000	94	38	40	121	41	34
More than \$30,000	79	35	44	412	161	39
Subtotal	310	154	50	712	264	37
All Returns	1,676	1,164	69	1,635	611	37

SOURCE: AIMS Table 70, Report Symbol No-CP:A-251, IRS Document 5342, Fiscal 1978.

<sup>a</sup>Returns selected for audit (after manual screening) from inventory of return with high discriminant function (DIF) scores.

<sup>b</sup>Business, Farm and Professional are Form 1040 returns with Schedule C or F; wage-earner category includes all remaining returns. Income categories are based upon adjusted gross income as reported on the return.



—

,

FIGURE 3.4

LOW (top map) and HIGH (bottom map) DIF SCORE DISTRICTS  
FOR WAGE-EARNER STANDARD DEDUCTION RETURNS <\$10,000

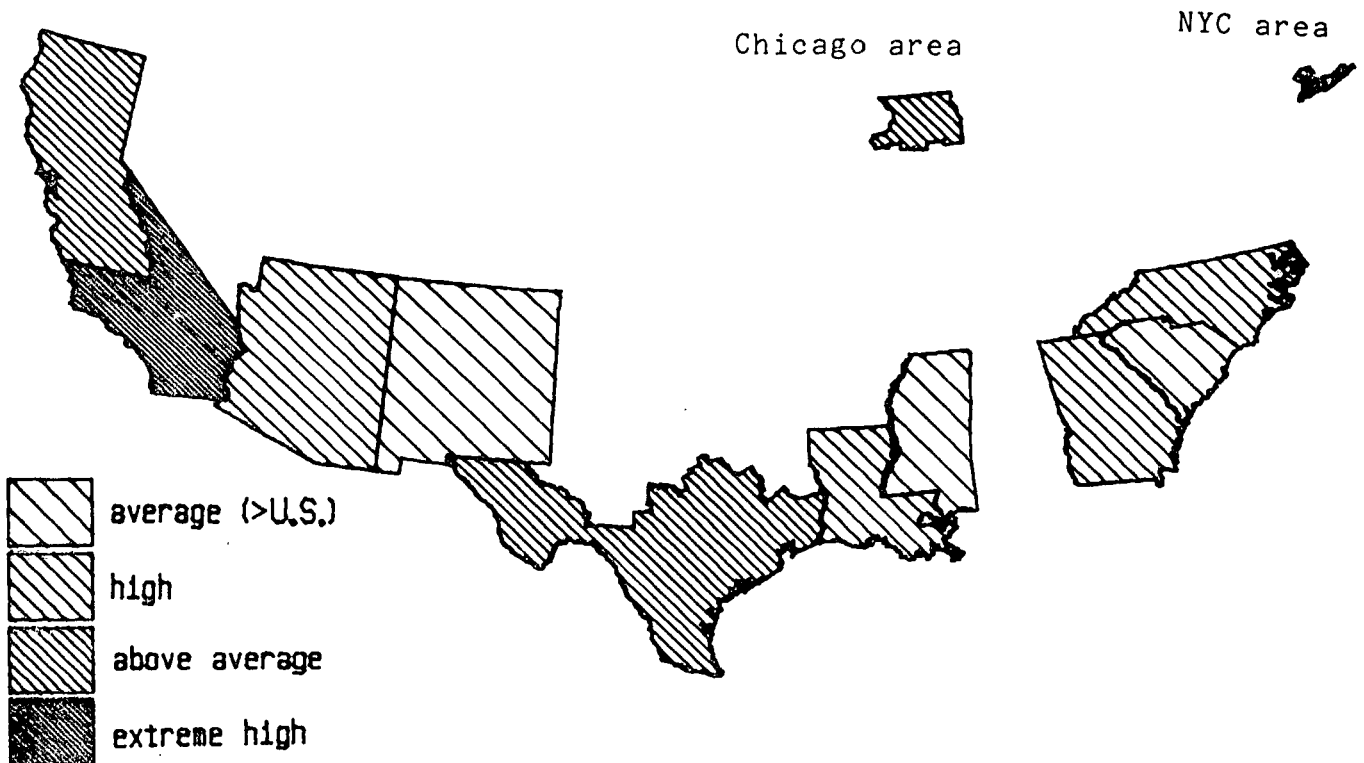
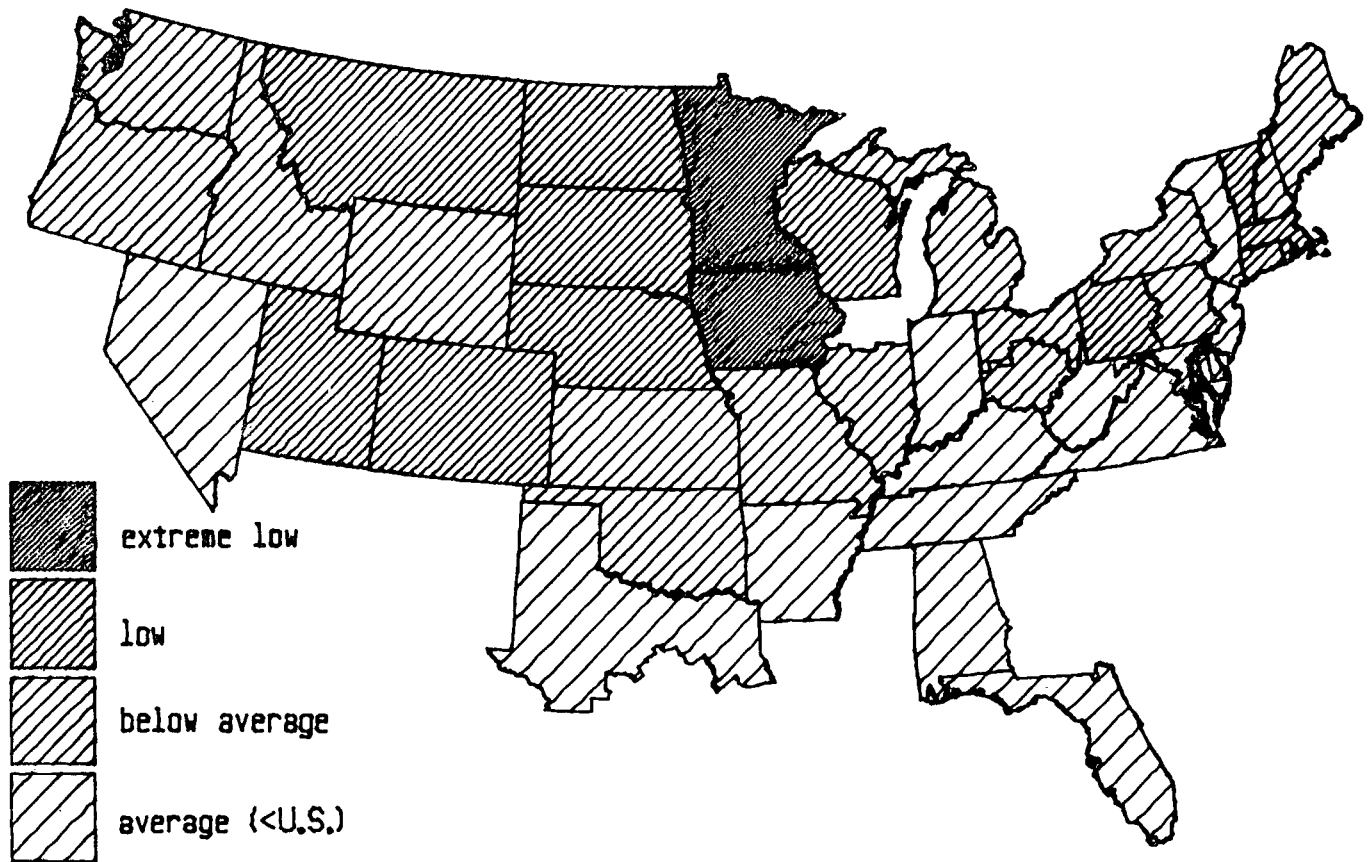






FIGURE 3.5

LOW (top map) and HIGH (bottom map) DIF SCORE DISTRICTS  
FOR WAGE-EARNER ITEMIZED RETURNS <\$10,000

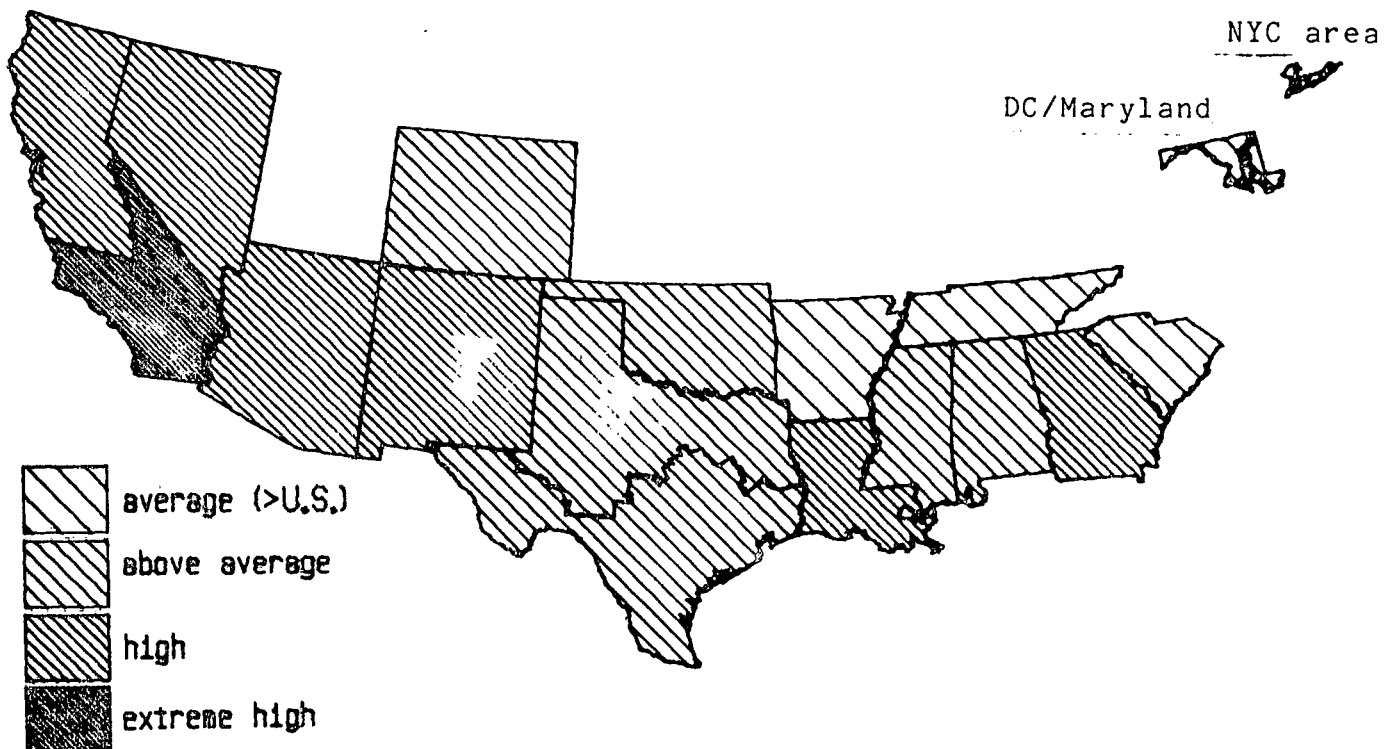
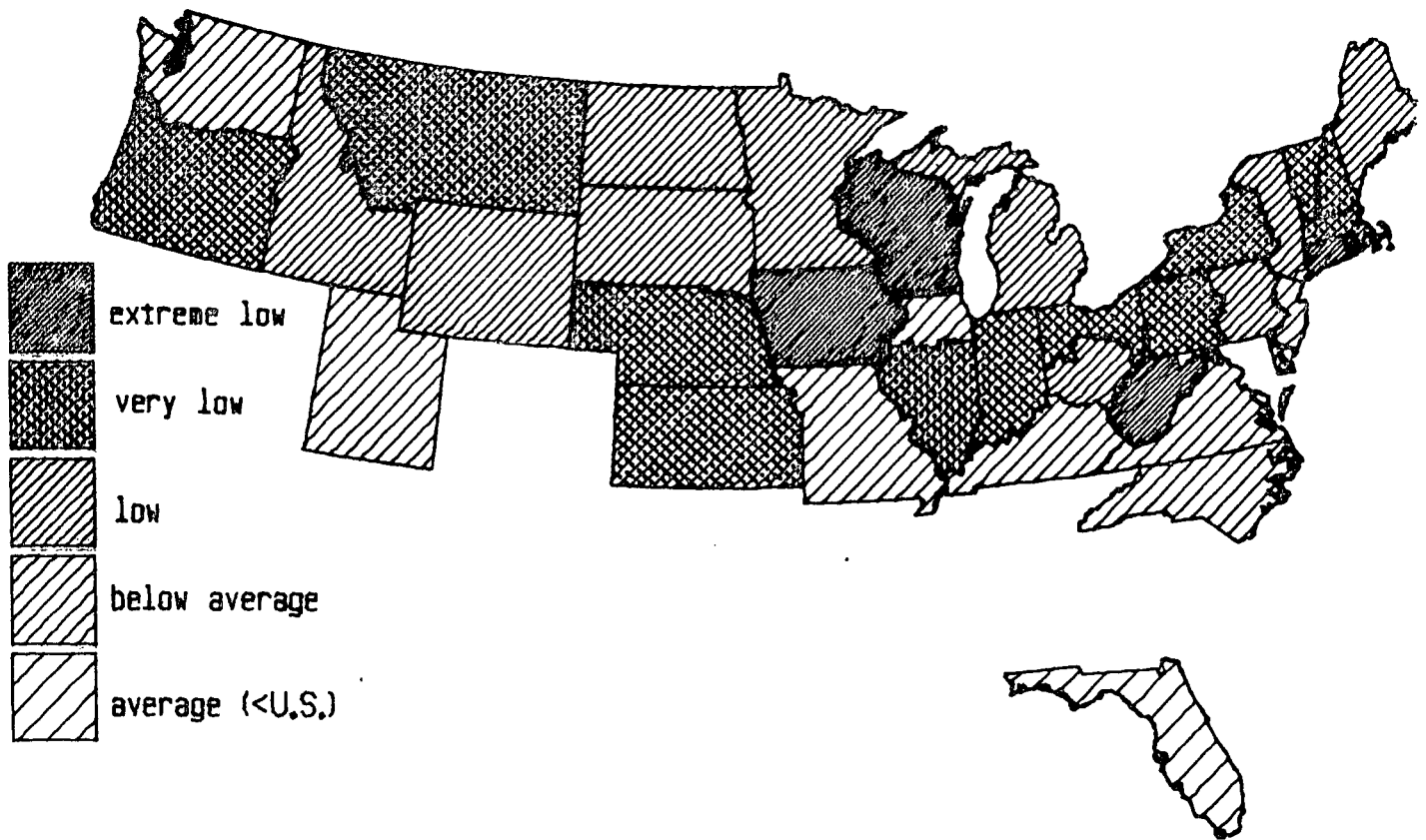




FIGURE 3.6

LOW (top map) and HIGH (bottom map) DIF SCORE DISTRICTS  
FOR WAGE-EARNER RETURNS \$10,000-\$50,000

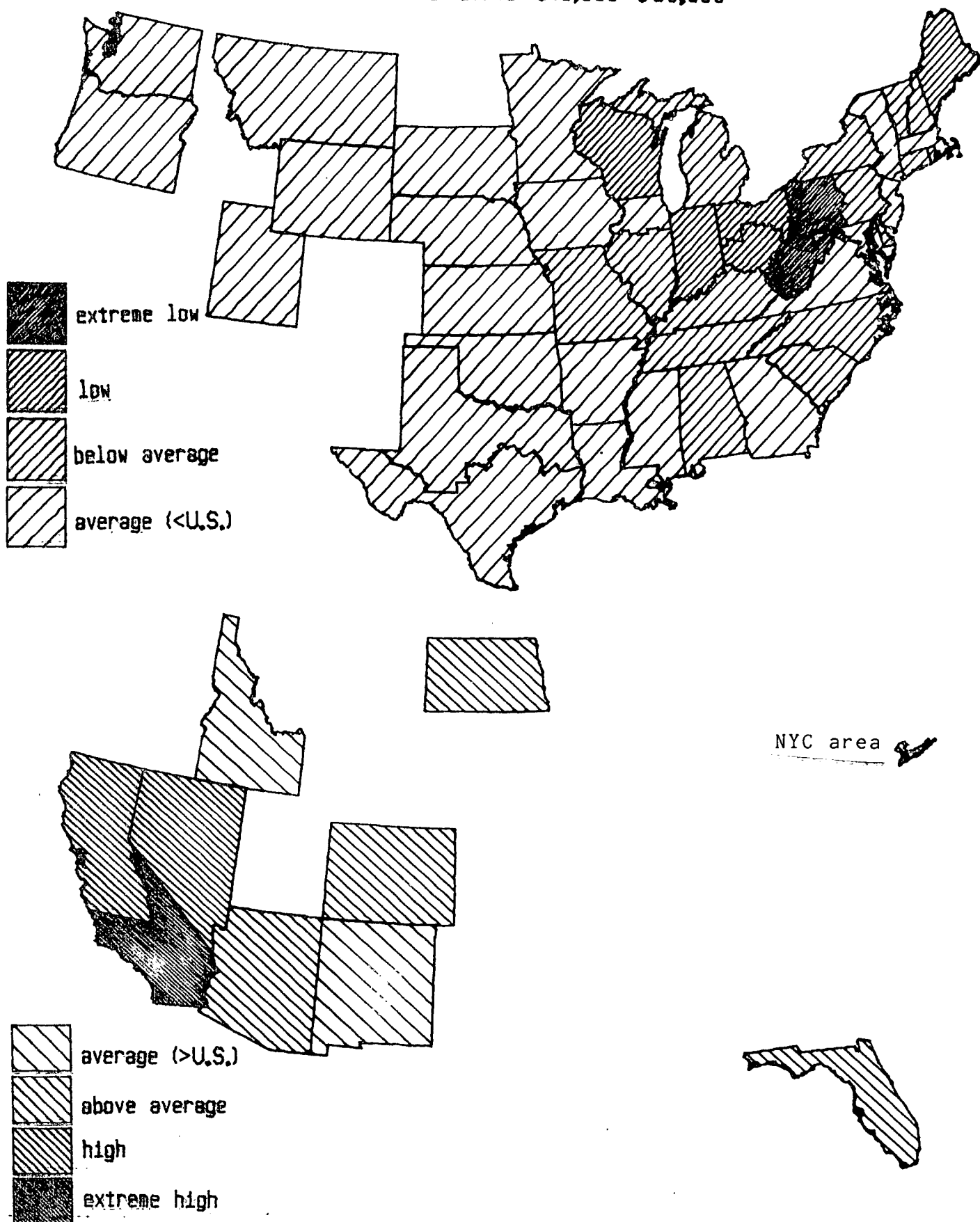
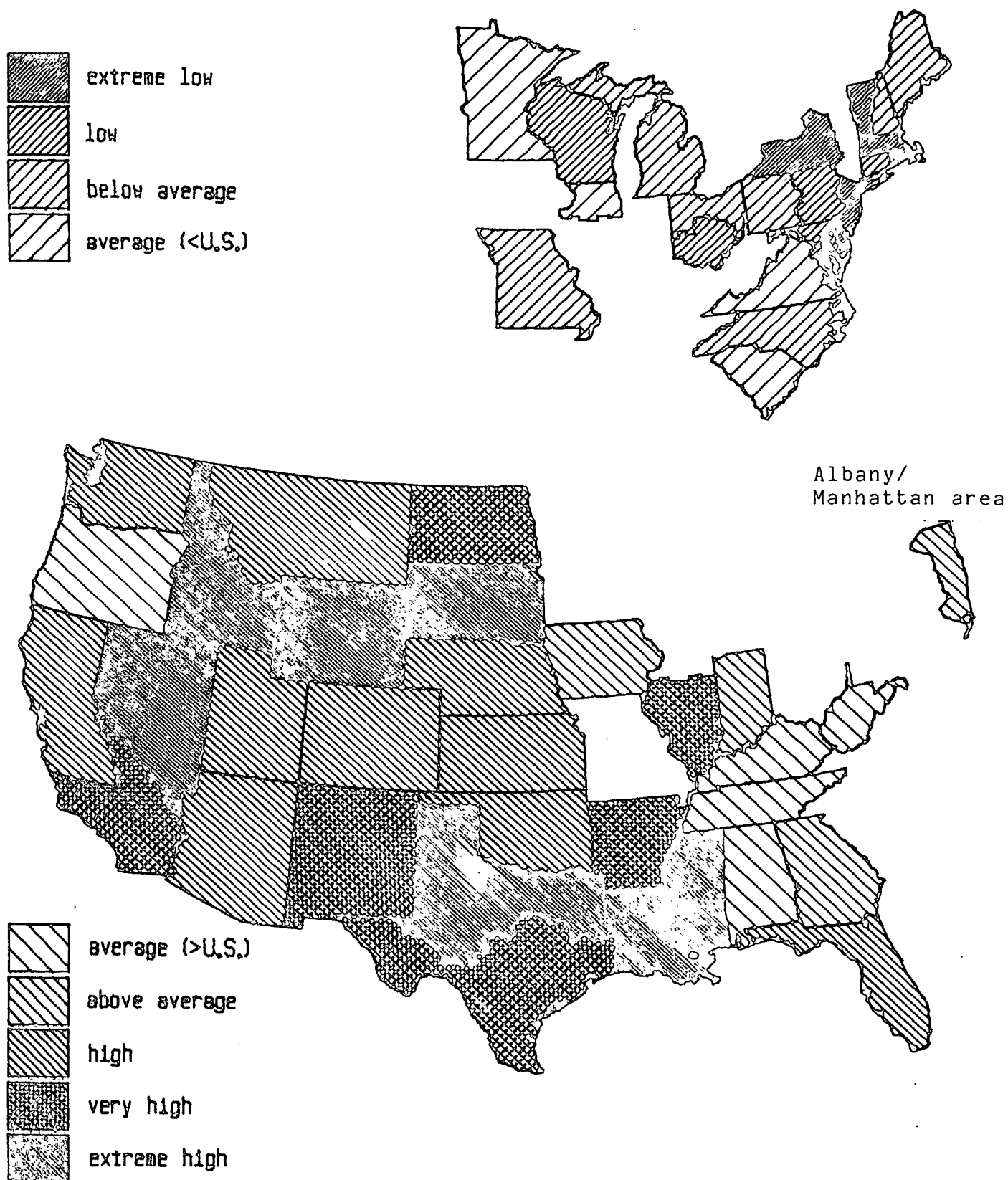




FIGURE 3.7

LOW (top map) and HIGH (bottom map) DIF SCORE DISTRICTS  
FOR WAGE-EARNER RETURNS  $\geq \$50,000$



•

•

•

•

•

•

•

•

•

•

•

PERCENT (%) OF RETURNS WITH HIGH DIF SCORES  
BY INCOME AND GEOGRAPHIC AREA<sup>a</sup>

	Income Tax Returns for Wage-earners <sup>b</sup>			
	Low Income (<\$10,000)		Middle Income (\$10,000- \$50,000)	High Income (≥\$50,000)
	Standard Deduction	Itemized Deductions		
Index Range				
United States	1.0	6.2	3.6	35.0
Regions (N=7)				
High	1.8	9.9	6.2	45.3
Low	0.7	4.4	2.2	30.0
Districts (N=58)				
High	3.1	14.3	9.3	57.7
Low	0.2	2.9	1.2	24.3

Correlation (r) Matrix<sup>c</sup>

## Income Class

## Low:

Standard	-	.98	.91	.69
Itemized	.77	-	.88	.78
Middle	.53	.70	-	.48
High	.19	.38	.32	-

SOURCE: Unpublished internal tabulation of the Internal Revenue Service, 1975.

<sup>a</sup>Because returns are scored by different formula in each of the categories shown, and the cutting point used for determining "High DIF" returns differs in each category, absolute scores cannot be meaningfully compared across return classes.

<sup>b</sup>Wage-earner returns are those without business, professional or farm income (no schedule C or F).

<sup>c</sup>Correlations show below diagonal are for the 58 IRS districts; correlations above the diagonal are for the 7 IRS regions.

•

•

•

•

•

•

•

•

•

•

•



indices therefore share the limitations of TCMP measures previously discussed. In addition, to the extent that DIF scores do not perfectly mirror measured noncompliance, errors of prediction are introduced.

Offsetting these disadvantages, DIF scores have several advantages. Unlike TCMP indices, DIF-measures are based upon all (rather than a small sample of) returns. They can be prepared annually (rather than only selected years in which a TCMP survey was conducted), and are available shortly after returns are filed (rather than after several years delay while TCMP audits are conducted and results compiled).

Currently, only limited information is available from IRS on how well DIF formula predicts actual noncompliance. As shown in Table 3.15, when returns are grouped into DIF score ranges, and the rank order of these groups compared with the rank order of the proportion of returns with tax change in each group, the Spearman's rank order correlations are fairly high--in the .80's and .90's except for the low business return category where rho is only .41. This type of comparison, however, probably paints too rosy a picture of DIF's predictive accuracy. First, the results are based upon the same sample on which the DIF formulas were originally developed, and not a validation sample. Second, we do not know how much variability remains within the groups compared. Third, particularly for business, farm and professional returns, the actual differences in the proportion of returns with tax change between the highest and lowest DIF score group is rather small. (It is possible that DIF scores would better distinguish between the percent of tax liability underreported, but such figures were not made available by IRS.) Fourth, we do not know how IRS chose the cutting points along the DIF score range, and whether the results are sensitive to the particular cutting points used.

Table 3.16 presents a comparison, carried out by the author, of regional noncompliance indices based upon DIF scores and TCMP results. In 5 out of 8 correlations, DIF scores explain only half or less of the variance in TCMP measures and the actual rank order of regions differed between measures. Unlike the figures from Table 3.15, here DIF scores cover not merely the TCMP sample--but all filed returns.<sup>35</sup> Further analysis would be useful in determining

---

<sup>35</sup>While returns for a roughly similar period of time are compared, the DIF formula used was developed from returns filed several years earlier. More information is needed to determine the degree to which the predictive power of DIF formula declines in the short run. It is not clear whether improvements observed between the "old" formula and

TABLE 3.15

## ASSOCIATION WITHIN RETURN CLASSES OF AVERAGE TCMP SAMPLE AUDIT RESULTS AND DIF SCORE GROUP RANKINGS

Return Class: Source and Level of Reported Adjusted Gross Income	Grouping Criteria: DIF Score Range <sup>a</sup>					
	DIF Score		TCMP % of Returns With Tax Change		Spearman's Rank Correlation	
	Minimum Group Score	Maximum Group Score	Minimum Group %	Maximum Group %	Number of Groups Ranked (N)	Ratio
<b>Wage-earners<sup>b</sup></b>						
Less than \$10,000						
Standard	164	525	13	68	23	.94
Itemized	121	546	57	80	26	.91
\$10-15,000	75	546	54	72	17	.89
More than \$50,000	- 37	561	31	68	34	.85
<b>Business, Farm, Professional<sup>b</sup></b>						
Less than \$10,000	161	346	65	75	17	.41
\$10,000-\$30,000	120	444	65	75	25	.70
More than \$30,000	40	526	59	76	34	.82

SOURCE: GAO Report GGD-76-55, November 5, 1976; reprinted from results of IRS internal study.

<sup>a</sup>Separate discriminant function (DIF) formula developed for each return class.

<sup>b</sup>Business, farm and professional are Form 1040 return with schedule C or F; wage-earner category included all remaining income tax returns filed by individuals. Income categories are based upon adjusted gross income as reported on the return.

TABLE 3.16  
ASSOCIATION BETWEEN DIF AND TCMP NONCOMPLIANCE INDICES FOR IRS REGIONS  
(N=7)

Return Class: Source and Level of Reported Adjusted Gross Income	Income Tax Returns Filed by Individuals							
	% of All Filed Returns With High DIF Score <sup>a</sup>		TCMP Sample Result <sup>b</sup>				Pearson's Correlation Between DIF and	
			% of Returns With Tax Increase		% of Net Tax Liability Underreported			
	Lowest Region	Highest Region	Lowest Region	Highest Region	Lowest Region	Highest Region	TCMP: % of Returns With Increase	TCMP: % of Net Tax Liability Underreported
Wage-earners <sup>c</sup>								
Less than \$10,000								
Standard	0.7	1.8	12	21	3.7	10.9	.42	.28
Itemized	4.4	9.9	46	61	9.6	20.4	.83	.92
\$10,000 - \$50,000	2.2	6.2	63	79	1.7	6.1	.90	.71
More than \$50,000	30.0	45.3	67	78	4.2	6.6	.70	.34

SOURCE: Unpublished tabulations, Internal Revenue Service (data for business return classes not available).

<sup>a</sup>Regional DIF scores based upon all returns filed, Fiscal 1975 audit inventories. Because returns are scored by different formula in each return class shown, and the cutting point used for determining "High DIF" returns differs in each category, absolute scores cannot be meaningfully compared across return classes.

<sup>b</sup>Based upon TCMP Phase III, Cycle 5 sample returns only. These are tax year 1973 returns filed in calendar year 1974, and would normally fall in Fiscal 1975 audit inventories.

<sup>c</sup>Form 1040 and 1040A income tax returns without Schedule C or F; income categories are based on adjusted gross income as reported on the return.

the value of DIF-based measures of noncompliance at the subnational level. Though there has been discussion of developing subnational DIF formula (and at least one preliminary study was conducted by IRS), factors are presently chosen for inclusion in the formula for their ability to predict total tax change on a national level. Items need not be reported incorrectly themselves, they only need to be related to a return's total tax change. It is thus possible that the predictive power of items varies considerably by geographic area. If for example, an item related to "moving expenses" was included in the formula, it could--if associations varied by region--give abnormally high DIF scores to those areas in the country undergoing immigration (with therefore a larger proportion of returns with moving expenses).

Additional problems would also be encountered in time series analysis because DIF formula are revised every two to three years. Comparisons across taxpayer subgroups would also be difficult because different formula are used for different return classes. While it would be possible to calibrate DIF scores in some fashion in an effort to make cross-group and over time comparisons more comparable, the calibration process itself would introduce another source of error.

Despite these apparent disadvantages, noncompliance indices based upon DIF scores offer a potentially valuable supplement to TCMP surveys in assessing compliance. Currently, however, neither the potential strengths nor weaknesses of this approach have been adequately studied.

#### RESIDUAL NONCOMPLIANCE INDICATORS

A third indirect type of measure of tax violations is based upon the difference or residual left when there are two sets of income data: the first based upon income reported on tax returns from IRS statistics of income series; the second, based upon national income figures from the Survey of Current Business of the Commerce Department. After translating the data into a common definition of

---

the "new" on a subsequent TCMP survey are largely attributable to declines expected in predictive power between the sample on what the formula was developed and a new sample, or actual changes in noncompliance patterns. Though sampling variability of regional TCMP measures may contribute to the low association observed, the sample size of 50,000 is sufficient so that such variability should not be a dominant factor.

"income"<sup>36</sup> and adjusting for income received by individuals falling below federal income tax filling requirements, the difference between these two aggregate totals --to the extent the original two series are accurate--should measure the amount of income improperly omitted from tax returns due to underreporting or the failure to file.

#### Residual Estimates of Income Underreporting

Results for selected years previously calculated by economists Kahn (1960) and Goode (1964, 1976) are shown in Table 3.17. U.S. personal income (Commerce) and income reported on nontaxable and taxable returns (IRS) are shown in columns (1), (4) and (8), along with the adjustments made by Kahn and Goode (Columns 2, and 5) in deriving the residual (column 9) they reported. I have translated these residuals into annual underreporting rates (column (9)/column (7) shown in column (10).

Because we are dealing with figures on gross income before exemptions, deductions and credits are taken, neither the absolute level nor the rate of underreporting is directly translatable into unpaid taxes. In 1970, for example, the average tax paid on reported adjusted gross income was 13.3%, and on net income, 20.9%, or between one-sixth to one-fifth of reported incomes (Statistics of Income, 1970). The tax on estimated underreporting could be higher or lower than these average rates depending upon how this underreporting was distributed across tax brackets, income sources, and between filers and nonfilers.<sup>37</sup> Simply applying average tax yields would imply an estimated tax underpayment of 6 to 9.5 billion dollars in 1970.

Tax noncompliance, as indexed by this residual estimator, also shows a very consistent downward trend. Since only two time points are available after 1955, and these two by Goode may have been calculated by somewhat different assumptions than those by Kahn for the earlier period, I recalculated the entire series using Commerce data on personal income for the period 1947-1977, already adjusted to 'income' defined for federal tax purposes by the Bureau of Economic Analysis (internal BEA tabulations).

---

<sup>36</sup>Income as that term is used in national income and product accounts must be reduced for types of income not treated as taxable under the statute, and increased to include transfer and other payments which are "income" for tax purposes, but not for economic uses.

<sup>37</sup>Income from some sources is more likely to be partially offset by business expenses or other adjustments; for nonfilers, income will be offset by allowable deductions.

TABLE 3.17

DERIVATION OF ESTIMATE OF PERSONAL INCOME IMPROPERLY OMITTED  
FROM FEDERAL INCOME TAX RETURNS  
(dollars in billions)

Year	U.S. Personal Income [Per Inc] (1)	Net Adjustment Required For Comparability With Income For Tax Purposes [Adj] (2)	Adjusted Personal Income (3)	Adjusted Gross Income (AGI) Received by Individuals Below Tax Filing Payment Requirements			Adjusted U.S. Personal Income Required To Be Reported On Tax Returns (7)	Adjusted Gross Income (AGI Tax) Reported On Taxable Returns (8)	Residual [R] Income Not Accounted For On Returns (9)	Under- reporting Rate (10)
				AGI Reported On Nontaxable Returns (4)	Estimated AGI Received By Others Not Required To File or Pay (5)	Total (6)				
1945	171.1	30.9	140.2	2.4	1.8	4.3	135.9	118.1	17.8	13.1
1946	178.7	22.6	156.1	16.0	2.2	18.2	137.8	118.7	19.1	13.9
1947	191.2	19.6	171.6	14.4	2.3	16.7	154.8	135.9	19.0	12.2
1948	210.2	25.4	184.8	21.5	2.4	23.8	161.0	142.7	18.3	11.4
1949	207.2	22.9	184.3	22.0	2.2	24.2	160.1	139.0	21.1	13.2
1950	227.5	26.1	201.4	20.6	1.7	22.3	179.1	159.3	19.9	11.1
1951	255.6	29.0	226.6	19.1	2.4	21.5	205.1	183.9	21.2	10.3
1952	272.5	31.9	240.6	18.7	2.5	21.2	220.8	197.3	22.1	10.1
1953	288.2	33.7	254.5	18.2	2.5	20.8	233.7	210.5	23.2	10.0
1954	290.1	37.1	253.0	19.6	2.3	21.9	231.1	209.7	21.4	9.3
1955	310.9	38.2	272.7	18.9	2.1	21.1	251.6	229.6	22.0	8.9
1960	401.32	52.3	349.0	18.3	6.9	25.2	323.8	297.2	26.6	8.9
1970	808.3	125.5	682.8	21.4	6.8	28.2	654.6	610.3	44.3	6.8

<sup>1</sup>Columns (4) + Column (5) may differ slightly from Column (6) because of rounding.

<sup>2</sup>Figure now given for U.S. personal income in 1960 is 401.0 (p. 224, Historical Statistics of United States, Colonial Times to 1970, U.S. Bureau of the Census, 1975). This would result in estimated underreporting of \$26.3 billion out of 296.9 or 8.85%.

SOURCE: 1945-1955: Cols (3)-(6), (8)-(9) from Kahn, 1960, pp. 194-195.  
1960: Cols (1)-(4), (8) from Goode, 1976, pp. 33, 305-6 [Goode does not give exact dollar figure for col. (5) but states he estimates it to be one percent of total AGI (p. 33, fn. 34) which would be approximately \$6.8 billion.] I calculated the remaining columns for each year, based upon these authors' figures, except 1945-1955, col (1) from U.S. Dept. of Commerce, National Income and Product Accounts, reprinted in U.S. Bureau of Census, Historical Statistics of United States, Colonial Times to 1970, 1975, p. 224.

From this series, I subtracted income reported on returns from IRS Statistics of Income annual volumes, along with an estimate of income received by persons falling below federal tax requirements (utilizing the method reported by Goode (1964:223)).<sup>38</sup> Results are shown in Table 3.18, and the consequent estimated underreporting rate for this time series is graphed in Figure 3.8.

Variations on this residual method have previously been utilized by Goldsmith (1951), Stocker and Ellickson (1959), Holland and Kahn (1955), and Kahn (1968) to estimate residuals by type of income--interest, dividends, rent, wages and salaries, business and professional income, farm and nonfarm income, sometimes using other survey sources on income. Estimated underreporting rates vary by income source. Somewhat higher rates of underreporting of business and particularly farm income result from residuals reported by Stocker and Ellickson (p. 122; a rate of 11.9% on 1955 farm receipts, for example), and much lower underreporting rate on wages and salaries of only two percent from residuals estimated for 1961 by Kahn (1968). Pechman and Okner (1974), deriving estimates of the distribution of tax burdens by income level, utilize a statistical match for individuals covered by the 1967 Survey of Economic Opportunity and those filing tax returns in 1966 (IRS SoI Tax Model data), and compare the aggregate totals by type of income resulting from the blown up sample to adjusted Commerce national income totals allocating the residuals by income type. The Office of the Secretary of the Treasury, Office of Tax Analysis, using a similar approach, has developed estimates of underreporting of dividends and interest income.

Most recently the IRS study group on the subterranean economy used the residual method in estimating underreporting of interest and dividend income for 1976. They also examined trends between Commerce income and IRS tax data on wages and salaries as well as total personal income. IRS estimated that upwards of 16 percent of interest and dividend income, but only 1 percent of wages and salary, was not reported for 1976 using the residual method (Pub 1104).<sup>39</sup>

---

<sup>38</sup>Goode assumed that the average income of the population not covered by tax returns was equal to that of persons represented on nontaxable returns.

<sup>39</sup>For wages and salaries, IRS made no adjustment for income received by persons falling below income tax return filing requirements.

TABLE 3.18

ESTIMATED RATE OF INCOME UNDERREPORTING ON FEDERAL INCOME TAX RETURNS, 1947-1977  
(BASED ON NIPA AND SOI TAX DATA ON INDIVIDUALS)

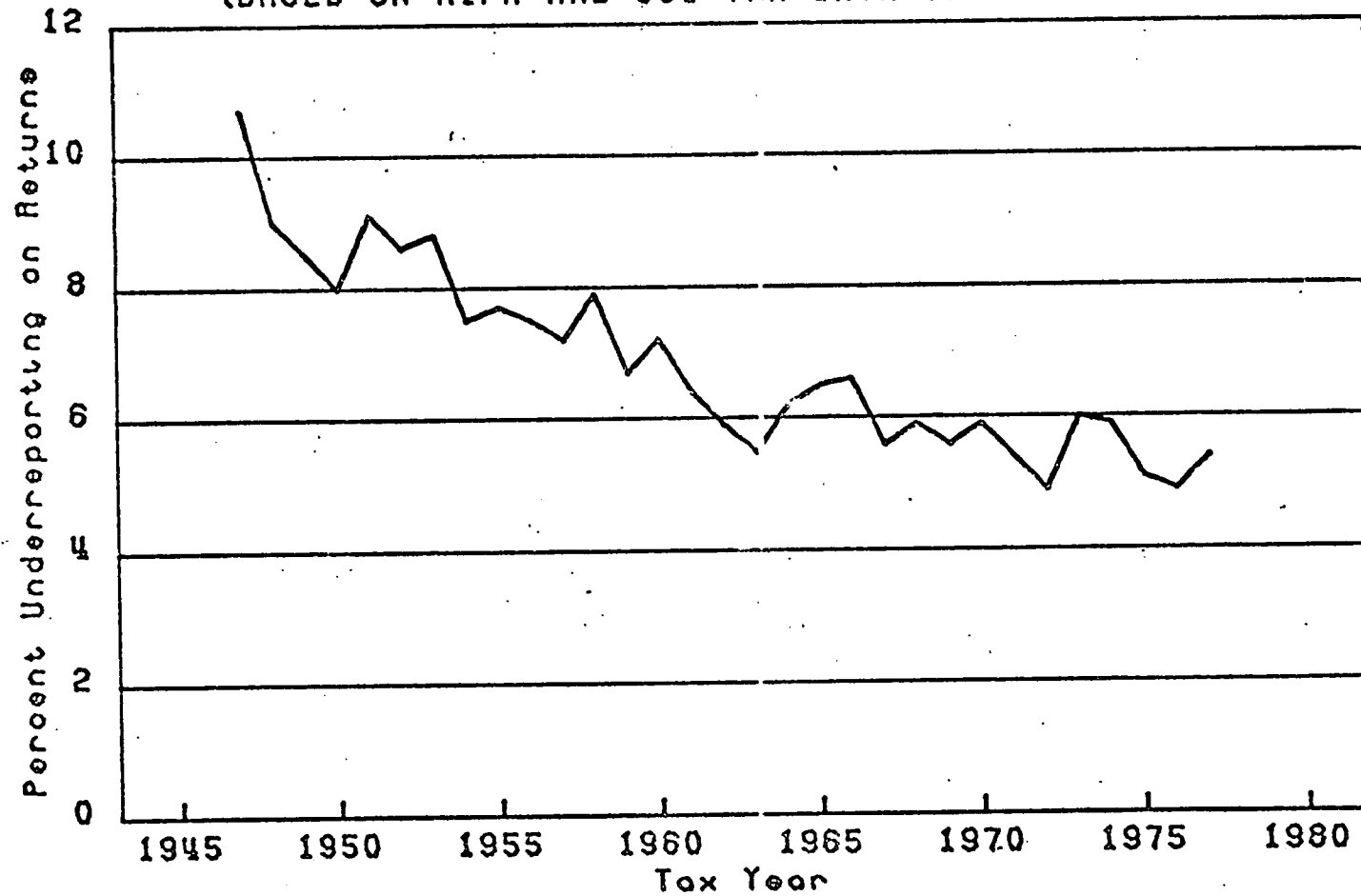
Year	Adjusted Personal Income (1)	Adjusted Gross Income (AGI) Received by Individuals Below Tax Filing Payment Requirements			Adjusted U.S. Personal Income Required to Be Reported on Tax Returns (5) [(1)-(4)]	Adjusted Gross Income (AGI Tax) Reported on Taxable Returns (6)	Residual Income Not Accounted for on Returns (7) [(5)-(6)]	Estimated U.S. Income Under- reporting Rate (%) [(7)/(5)]
		AGI Reported on Nontaxable Returns (2)	Estimated AGI Received by Others Not Required to File or Pay (3)	Total (4) [(2)+(3)]				
1947	172.6	14.4	6.0	20.5	152.2	135.9	16.3	10.7
1948	186.4	21.5	8.1	29.6	156.7	142.7	14.0	8.9
1949	183.7	22.3	9.3	31.5	152.1	139.1	13.0	8.5
1950	202.1	20.6	8.4	29.0	173.1	159.3	13.8	7.9
1951	228.5	19.2	7.0	26.2	202.3	183.9	18.3	9.0
1952	240.9	18.8	6.2	24.9	216.0	197.3	18.7	8.6
1953	255.5	19.4	5.4	24.8	230.7	210.5	20.3	8.8
1954	253.8	20.6	6.4	27.0	226.8	209.7	17.1	7.5
1955	272.0	19.8	5.4	25.2	248.7	229.6	19.1	7.7
1956	294.2	19.0	5.2	24.2	269.9	249.6	20.4	7.5
1957	306.7	19.1	5.1	24.2	282.4	262.2	20.3	7.2
1958	311.2	20.0	6.5	26.5	284.7	262.2	22.5	7.9
1959	333.9	18.8	6.6	25.4	308.4	287.8	20.7	6.7
1960	346.1	19.4	6.4	25.9	320.3	297.2	23.1	7.2
1961	359.1	19.7	7.0	26.7	332.4	311.3	21.2	6.4
1962	378.5	19.2	7.8	27.0	351.4	330.6	20.8	5.9
1963	398.3	19.8	7.6	27.4	370.9	350.4	20.4	5.5
1964	340.8	22.2	7.6	29.8	401.0	376.0	25.0	6.2
1965	466.4	21.3	7.4	28.7	437.7	409.3	28.4	6.5
1966	508.9	20.1	6.6	26.7	482.2	450.2	32.0	6.6
1967	541.6	19.2	6.0	25.2	516.4	487.4	28.9	5.6
1968	595.6	18.0	5.7	23.7	571.9	538.3	33.6	5.9
1969	644.7	17.4	4.0	21.4	623.3	588.2	35.0	5.6
1970	677.3	21.4	7.1	28.5	648.8	610.3	38.5	5.9
1971	719.9	22.3	9.1	31.4	688.5	651.3	37.2	5.4
1972	793.2	28.6	10.0	38.6	754.6	717.4	37.2	4.9
1973	887.5	27.4	9.2	36.7	850.8	799.7	51.1	6.0
1974	966.1	25.1	5.7	30.8	935.2	880.4	54.9	5.9
1975	1,009.0	49.5	13.2	62.7	946.3	898.3	48.0	5.1
1976	1,118.3	49.4	12.1	61.6	1,056.7	1,004.4	52.3	4.9
1977	1,238.0	61.3	19.6	80.9	1,157.1	1,094.4	62.7	5.4

SOURCE: U.S. Department of the Treasury, Internal Revenue Service, Statistics of Income, 1947-1977 (prel.); internal tabulations, Bureau of Economic Analysis; U.S. Census annual population estimate Data as reported in columns (1), (2), (6); remaining estimates by author on the basis of figures reported by these sources.



FIGURE 3.8

ESTIMATED RATE OF INCOME UNDERREPORTING, 1947-1977  
(BASED ON NIPA AND SOI TAX DATA ON INDIVIDUALS)



Limitations of the Residual Method:  
Validity and Reliability of Estimates

The accuracy of the estimates derived from the residual indicator approach are a direct function of the reliability of the basic Commerce and IRS income statistics, the validity of the adjustments made to ensure comparability between the two income series, and the robustness of the estimates to departures from these standards.

Data on income reported on returns are derived from IRS Statistics of Income (SoI) series, which have been published annually since 1916.<sup>40</sup> Since 1926, SoI data on individuals has been based upon sample information. Current samples for individual returns now average around 200,000 (out of 90 million filed).

The population of returns or the sampling frame for any one year consists of all returns received and processed by the IRS. While most returns are for the current time period, "delinquent returns for prior years, revenues processed during the same period, (are) included in the sample to compensate for current-year returns filed after the cutoff data for receipt of sample returns for (any one) report." (SoI, Individual Returns 1975, p. 215). Information recorded is based on reported amounts, before any adjustments from enforcement activities.

Sampling and nonsampling limitations of the data, as well as changes in the tax law which affect comparability over time, are discussed in each SoI volume. Because of the size of the sample, and the efficiency in sampling design, sampling variability for national total estimates is low. On adjusted gross income figures used for the residual indicator, the coefficient of variation at the national level is estimated at 0.11%. While changes in the tax laws pose problems for year to year comparisons, fortunately the definition of adjusted gross income remained largely unchanged in the post-World War II period. (Duncan and Shelton;1978:191)

The National Income and Product Accounts (NIPA) of the Department of Commerce provide the second measure of aggregate personal income for the residual estimator approach. Unlike SoI, NIPA estimates are not based upon a

---

<sup>40</sup>In response to a statutory requirement first enacted in the Revenue Act of 1916, annual volumes have been published "with respect to the operation of the income tax laws, including classifications of taxpayers and of income, the amounts allowed as deductions, exemptions, and credits, and any other facts deemed pertinent and valuable" (IRS Sec. 6108(a)).

single sample, but represent the compilation of numerous surveys, other informational sources, estimates and adjustments.<sup>41</sup>

As a basis for estimating tax underreporting, NIPA data have at least two major limitations. First, income earned from informal activities outside the context of regular business establishments is probably underrepresented. (And of course, income earned from illegal activities will not be normally included.) Second, NIPA estimates are not independent from tax data, since return information is used in the estimation process.<sup>42</sup> Indeed, Duncan and Shelton in their review of government statistics during the past fifty years report that impetus for improvement and expansion in SoI tabulations during the post World War II period came from "the fact that national income and product accounts (NIPA) . . . could be improved by use of these data."<sup>43</sup>

Kahn (1964:138) notes that "in its estimates of unincorporated business income, the [Commerce Department] relies heavily on tax return information. It is true that the wage and salary component of national income is derived primarily from reports to State unemployment insurance authorities, and not from income tax information. Despite the fact that wages and salaries comprise around two-thirds of total personal income, underreporting in this area is very low. Thus, most of the difference between NIPA and SoI data arises in areas other than wages and salaries--areas where NIPA's reliance on tax data is greater.

---

<sup>41</sup>NIPA estimates for personal income are in fact themselves a residual measure, left after subtracting receipts by entities other than persons (i.e., corporations, foreign entities, governments, etc.).

<sup>42</sup>(In addition to data reported on returns, Commerce has utilized 'blow-up' ratios to adjust for underreporting on returns derived from IRS Taxpayer Compliance Measurement Program surveys, as well as its early predecessor, the 1948 - 1949 Audit Control Program.)

<sup>43</sup>They report (p. 190): "As the number of items tabulated and the industry and other breakdowns for which each item was shown became large and larger in the 1950's and 1960's, the use of income tax statistics spread to most phases of NIPA. Indeed, by the 1960's the only major parts of NIPA which made very little use of these data were (1) wages and salaries, which depended chiefly on the unemployment insurance statistics, (2) most of the final product estimates, and (3) the current estimates, because of the lag in producing income tax data and the fact that they are only annual."

In addition to lack of independence between SoI and NIPA income series, additional sources of error are introduced by the sizable adjustments required to transform NIPA income figures into "income" as defined for federal income tax purposes. Net adjustments have been on the order of 20 percent, and because both positive and negative adjustments occur, the absolute amount of these adjustments is even higher. Economists both inside and outside government differ on what the appropriate adjustments should be. [Compare, for example, Kahn (1960) and Goode (1964, 1976)]; Bureau of Economic Analysis and IRS adjustments (IRS Pub. 1104, Appendix E). Because of the magnitude of these adjustments, small changes can significantly affect the residual estimate and thus introduce a major source of potential error.

Because most people file returns and those who do not typically have low incomes, the adjustment made for income received by persons under the level required for federal income tax payments is of less consequence. In 1974, for example, only an estimated three percent of the total population of the country was unaccounted for on federal income tax returns (both taxable and nontaxable returns filed). Though this figure is undoubtedly too low because of underenumeration of the Census and double-counting which occurs in tax data because some persons, particularly students, are allowed to file and to be counted as dependents on their parents' return, the relative amount involved in this adjustment is quite small (representing since the mid-sixties only one percent of total personnel income).

#### Robustness of the Residual Estimator

A sensitivity analysis shows that the estimated magnitude and rate of underreporting using the residual method are greatly affected by small changes in the measures used, particularly in the estimate of U.S. personal income (see Table 3.19). If the estimate for personal income is even one percent too low, the estimate for underreporting would be twenty percent larger; a ten percent underestimate of adjusted gross income would triple the level of the predicted unreported income on returns. Since differences of one or more percentage points could easily arise from underenumeration, failure to pick up income generated in the so-called "underground" economy outside regular market channels, or inaccuracies in the adjustments, the residual estimator is far from robust.

Table 3.19 also compares the effects of a ten percent error (both in under or overenumeration) of other factors which enter into the estimation process. While effects are not as large as those observed for income, the effects of underenumeration of the U.S. population (or claiming too

TABLE 3.19

SENSITIVITY OF ESTIMATES OF INCOME UNDERREPORTING  
ON FEDERAL TAX RETURNS, 1947-1977  
(BASED ON NIPA AND SOI TAX DATA ON INDIVIDUALS)

Year	Estimated Income Underreported (Dollars in Billions)									
	Actual Estimate		If Values Actually 10% larger for:				If Values Actually 10% smaller for:			
			Personal Income (NIPA adj.)		U.S. Population (Census)		Income or Population Below Filing Require- ments		Income Reported as Nontaxable on Returns	
	Dollars (\$)	Rate (%)	Dollars (\$)	Rate (%)	Dollars (\$)	Rate (%)	Dollars (\$)	Rate (%)	Dollars (\$)	Rate (%)
1947	16.3	10.7	33.6	19.8	11.0	7.5	16.9	11.1	16.9	11.0
1948	14.0	9.0	32.7	18.6	7.2	4.8	14.9	9.4	14.9	9.3
1949	13.0	8.5	31.4	18.4	6.1	4.2	13.9	9.1	13.9	9.0
1950	13.8	8.0	34.0	17.6	6.7	4.0	14.6	8.4	14.6	8.3
1951	18.3	9.1	41.2	18.3	10.9	5.6	19.0	9.4	19.0	9.3
1952	18.7	8.6	42.7	17.8	11.2	5.4	19.3	8.9	19.3	8.8
1953	20.3	8.8	45.8	17.9	12.3	5.5	20.8	9.0	20.8	8.9
1954	17.1	7.5	42.5	16.8	8.9	4.1	17.7	7.8	17.7	7.7
1955	19.1	7.7	46.5	16.8	10.7	4.5	19.6	7.9	19.6	7.8
1956	20.4	7.5	49.8	16.6	11.7	4.5	20.9	7.7	20.9	7.7
1957	20.3	7.2	50.9	16.3	11.4	4.2	20.8	7.3	20.8	7.3
1958	22.5	7.9	53.7	17.0	13.5	4.9	23.2	8.1	23.2	8.1
1959	20.7	6.7	54.1	15.8	11.3	3.8	21.3	6.9	21.3	6.9
1960	23.1	7.2	57.7	16.3	13.5	4.4	23.8	7.4	23.8	7.4
1961	21.2	6.4	57.1	15.5	11.3	3.5	21.9	6.6	21.9	6.5
1962	20.8	5.9	58.6	15.1	10.4	3.0	21.6	6.1	21.6	6.1
1963	20.4	5.5	60.3	14.7	9.5	2.6	21.2	5.7	21.2	5.7
1964	25.0	6.2	68.0	15.3	13.2	3.4	25.7	6.4	25.7	6.4
1965	28.4	6.5	75.0	15.5	16.0	3.8	29.1	6.6	29.1	6.6
1966	32.0	6.6	82.9	15.6	19.1	4.1	32.7	6.8	32.7	6.7
1967	28.9	5.6	83.1	14.6	16.0	3.2	29.5	5.7	29.5	5.7
1968	33.6	5.9	93.2	14.8	20.0	3.6	34.2	6.0	34.2	6.0
1969	35.0	5.6	99.5	14.5	21.2	3.5	35.4	5.7	35.4	5.7
1970	38.5	5.9	106.3	14.8	23.7	3.7	39.2	6.0	39.2	6.0
1971	37.2	5.4	109.1	14.4	21.3	3.2	38.1	5.5	38.1	5.5
1972	37.2	4.9	116.5	14.0	18.6	2.5	38.2	5.1	38.2	5.0
1973	51.1	6.0	139.8	14.9	31.7	3.8	52.0	6.1	52.0	6.1
1974	54.9	5.9	151.5	14.7	36.6	4.0	55.4	5.9	55.4	5.9
1975	48.0	5.1	148.9	14.2	23.5	2.5	49.4	5.2	49.4	5.2
1976	52.3	4.9	164.1	14.0	26.1	2.5	53.5	5.1	53.5	5.0
1977	62.7	5.4	186.5	14.6	30.1	2.7	64.6	5.6	64.6	5.5

SOURCE: Sensitivity analysis by author using data and estimated reported in Table 3.18.

many dependents on returns) work in the opposite direction. (Changes, however, in the estimate used for the average income of persons who fall below reporting requirements has only an insignificant effect on our estimator.) Thus actual direction of bias is difficult to predict without more information. Errors in our data or in the adjustments made could either inflate or deflate our estimator. What is clear, however, is that the absolute level or rate of underreporting derived from this approach is highly unstable.

In contrast, the slope (reduction over time) in the estimated underreporting rate is quite robust. The effects of a change in any one of the factors as shown in Table 3.19 is to shift in the entire plot of underreporting over time up or down, without greatly affecting its slope. Thus only differential changes in the magnitude error over time in population or income estimates could account for this observed decline. Although population under-enumeration may have declined over time, the effect of plausible shifts in completeness of population counts are much too small to produce estimation errors large enough to account for the observed trend in underreporting. (Something on the order of a 30 percent underenumeration of population would at minimum be required in the immediate post-World War II period to account for the observed underreporting trend.) While population counts would need to improve to explain these differences, national income and produce account estimates of personal income would have to grow consistently less complete to account for the movement in our estimates of underreporting. More and better data should have increased the completeness of information on income from regular business establishments (other things equal). Standing alone, this would produce an apparent rise--not a decline--in estimated income underreporting on returns.

Current speculation about the so-called informal or underground economy argues that other things are not equal; that there has been a very sizable growth in the unreported "cash" economy. Estimates on the order of Gutmann's (discussed in the earlier section) of 10% of GNP are in fact comparable to that estimated for income underreporting for immediate post World War II period based upon the residual method. However, to explain the estimated trend shown in 3.18, one would need to accept both the assumption that proportionately the informal economy today is much larger than immediately after the war, and that the trend towards this informal or cash economy was progressive and gradual. In contrast, most of the speculation about the growth in the unreported cash informal economy has portrayed the change as a new or comparatively recent trend paralleling recent increases in taxes and inflation not one of progressive increase over the entire postwar period. The Gutmann method, for example, would require the rise to have started

at least by 1963 when the currency/checking account ratio began its upward climb back to the levels present immediately after World War II (see previous Figures 3.2 and 3.3).

Composition shifts in sources of income provide one plausible explanation involving gradual change. Over time, the proportion of income derived from wages and salaries (where income underreporting is estimated to be low) has increased, while that from self-employment sources (where underreporting is believed to be much greater) has declined.<sup>44</sup> Nonetheless, even when only the wage and salary component of personal income is examined over time, estimates for income underreporting rates still decline. (See Appendix I, Pub. 1104, and related background files on the subterranean economy.)

Thus in the final analysis the question of increasing or decreasing tax compliance remains open. While the residual method results in estimates of a decreasing levels of tax noncompliance, the sensitivity of the residual method to errors in estimating personal income mitigate against drawing any firm conclusions.

---

<sup>44</sup>Some of this reported decline in self-employment income may have arisen from a trend towards increasing incorporation of businesses. In that case, income underreporting would only be moved from the individual to the corporate sector.





## CHAPTER IV

### CRIMINAL TAX OFFENSES:

#### ESTIMATES OF THE EXTENT OF SERIOUS TAX VIOLATIONS

Most tax noncompliance is not criminal noncompliance. Tax violations cover a diverse array of behaviors, most of which have little to do with tax evasion per se. Given the complexity of the law, inadvertent errors are common. Further many tax requirements are subject to interpretation, and opinions vary even among experts. It is therefore important to distinguish clearly between the bulk of errors which are relatively minor and civil in nature and serious tax offenses, those criminal offenses and civil violations where negligence or fraud is involved.

The estimates we examined in the last chapter on tax noncompliance in general tell us very little about criminal offenses. Nor are many of the methods for estimating general tax violations previously discussed well adapted, at least standing alone, to measuring tax crimes.

Available information from which estimates of tax crime rates might be developed is quite limited. IRS has devoted a substantial effort to measuring general tax noncompliance since the early sixties. Chief among these efforts has been the Taxpayer Compliance Measurement Program (TCMP). Despite its existence for over a decade and a half, much of the potential offered by the TCMP program remains untapped. While IRS has utilized these data (a) to derive discriminant function (DIF) formula for the selection (screening) of returns for audit, and (b) to estimate civil noncompliance, no use has yet been made of the information to analyze criminal violations, or even civil violations of a serious nature.

Recognizing the absence of information on criminal offense prevalence and the need for management purposes, in late 1976, IRS did initiate the "Criminal Investigation Planning Model Study, an

"objective system to identify the extent and location of criminal fraud." (Planning Model Study Interim Report, 8-78.)

Designed primarily to exploit existing agency data sources, modest efforts were approved to attempt to measure criminal income tax violation by individuals. Unfortunately, changing priorities and resource constraints caused the

cancellation of even these limited plans. Thus, the efforts designed to "identify the extent of criminal [tax] fraud" were never carried out.<sup>1</sup>

#### TCMP DATA ON SERIOUS INCOME TAX OFFENSES

Results from IRS's Taxpayer Compliance Measurement Program offer some insights into the extent of serious federal income tax violations. While currently the best information that is available, TCMP data have some inherent limitations.

First because both criminal and serious civil violations are relatively rare, even a sample of 50,000 (a typical TCMP sample size) includes few cases involving serious offenses. Thus, expected sampling variability in any estimate remains sizable. Second, many needed tabulations and statistics were never prepared from the data after they were compiled onto computer tapes. Accordingly, while the information is potentially available, it is not currently accessible.<sup>2</sup> Third, some information--including exclusions for the sample and followup data on TCMP referrals for criminal investigation--were never compiled onto computer tapes, while other information was never gathered. Thus other information must be used to transform data on criminal referrals to estimate criminal offenses.<sup>3</sup> Totals also need to be adjusted slightly for cases excluded from tabulations.<sup>4</sup> Finally, TCMP at best provides only an

---

<sup>1</sup>CID officials also advised that there are no current plans to carry out such a research effort in the near future.

<sup>2</sup>In May, 1979, the Ninth Circuit in Long v. Internal Revenue Service, C76-3734, (a freedom of information case brought by the author), ruled that TCMP data tapes, once identifying detail were excised, were not exempt from required disclosure under the Freedom of Information Act, 5 U.S.C. 552. On February 15, 1980 the Solicitor General filed a petition for certiorari seeking review by the U.S. Supreme Court. However, the previous exemption claim that had been rejected by the Ninth Circuit (that the tapes were exempt as tax return information) was abandoned in this appeal.

<sup>3</sup>There was also the difficulty in identifying and locating the relevant TCMP tabulations from over a million pages of computer output which have been produced in the program, most of which has been retired for storage to Federal Records Centers.

<sup>4</sup>For more information on this adjustment see footnote 72.

estimate of what would happen if all taxpayers were given a thorough audit by experienced IRS agents. Some criminal tax violations are difficult to detect, and may not be uncovered in even the more in-depth audits characteristic of TCMP surveys.

The longest, (and thus potentially the most useful), series covers income tax returns filed by individuals (referred to as Phase III). As discussed in Chapter III, surveys of returns covering tax years 1963, 1965, 1969, 1971 and 1973 have been completed. (A sixth survey of 1976 returns was recently completed, but results are not yet compiled.) On each return in the sample, a detailed checksheet was filled out containing item by item the amounts reported on the return, along with "corrected" amounts after a detailed audit of the return. In addition, answers to the following questions on penalties were included:

- (1) Was the return subject to referral for potential criminal tax violation?
- (2) What was the most serious penalty, if any, assessed?
  - (a) Civil fraud
  - (b) Negligence
  - (c) Other
  - (d) None

Usable data on these items, however, were presently available only on three of the five surveys.<sup>5</sup> For these three surveys -- covering 1965, 1969 and 1973 tax years -- only diagnostic runs of these checksheet items were apparently made. Though these two items were not included among the regular output tables, the diagnostic runs do give simple weighted and unweighted sample counts for fraud referrals and civil penalties assessed.

---

<sup>5</sup>In the 1971 survey, due to budgetary restrictions, only selected subgroups of the population were sampled. Thus no overall population estimates can be obtained. Delays have been encountered in receiving photocopies of relevant 1963 TCMP tabulations from the Service; hence they could not be included in the above analysis.

Estimates of Criminal Income Tax  
Offenses on Filed Returns

On the basis of TCMP information that was tabulated from Phase III, rates of serious income tax violations were estimated by the author for returns filed by individuals. Results are shown for criminal income time violations in Table 4.1.

TABLE 4.1

Estimated Criminal Income Tax Violation Rates  
Returns Filed by Individuals

Taxpayer Compliance Measurement Program Survey	Tax Year	Sample Size (returns)	Referral for Potential Criminal Tax Violation	
			Number of Returns	Rate per 10,000 Returns <sup>1</sup>
III-2	1965	41,440	125	22
III-3	1969	47,534	268	16
III-5	1973	51,402	275	17
Total				
Combined Sample		140,376	668	18
Adjusted for exclusions <sup>2</sup>			734	20
Estimated Rate of Criminal Offenses				1-23

<sup>1</sup>The sampling ratio varied by strata; the rate shown is based upon the weighted frequencies, taking into consideration the varying sampling ratios.

<sup>2</sup>Cases selected for the TCMP sample which were already under criminal investigation were excluded from the tabulations. While data for earlier TCMP surveys were not retained, figures for the latest cycle (III-6) record 22 exclusions for this reason (out of a total sample of approximately 50,000). This figure of 22 per survey was used to adjust ( $22 \times 3 = 734 - 668$ ) the number of returns referred. In absence of information on the distribution of these exclusions across sampling strata, a straight 10% upward adjustment ( $66/668$ ) was made in the estimated rate of criminal referrals from 18 to 20 per 10,000.

<sup>3</sup>No compilations were available on the outcome of criminal fraud referrals. The estimate of 1-2 taxpayer convictions per 10,000 returns based upon experience from the regular/crime program. There are approximately 1.5 taxpayers per return on average; The estimated rate of potential criminal convictions per 10,000 taxpayers is 0.8-1.1.

SOURCE: Taxpayer Compliance Measurement Program, Returns Filed Phase III, Cycles 2, 3, 5, weighted and unweighted diagnostic tables: 5/990, 9/990, 3/990; A, C tables (RAT).

Rates of referral for potential criminal tax evasion averaged 18 per 10,000 returns across the three surveys. Though based on only 668 cases out of a combined sample of over 140,000, rates for each of the three surveys (despite even smaller n's) were quite close: 22 (1965); 16 (1969); 17 (1973) per 10,000.<sup>6</sup> After adjusting for certain cases excluded from these tabulations, an estimated rate of 20 per 10,000 was obtained.<sup>7</sup> (Referral rates under the regular audit program, where returns are selected for their audit potential, average around 42 per 10,000 returns (unpublished internal IRS tabulations).

A referral for potential criminal tax violation is not the same as a finding of criminal tax evasion. As previously mentioned, though data were collected on the results of these referrals, they were apparently never compiled. The only guide in transforming this figure on referrals into potential criminal tax convictions comes from the regular tax investigation program. Referrals go through several steps before an indictment is filed. First, the IRS

---

<sup>6</sup>The sampling ratio differed by strata, making the design several times more efficient than a simple random sample of the same size.

The stages are outlined in more detail in Chapter VI. See in particular Figure 6.1.

<sup>7</sup>Cases selected for the TCMP sample which were already under criminal investigation were excluded from the tabulations. While data for earlier TCMP surveys were not retained, figures for the latest cycle (III-69 record 22 exclusions for this reason (out of a total sample of approximately 50,000). This figure of 22 per survey was used to adjust ( $22 \times 3 = 734 - 668$ ) the number of returns referred. In the absence of information on the distribution of these exclusions across sampling strata, a straight 10% upward adjustment ( $66/668$ ) was made in the estimated rate of criminal referrals from 18 to 20 per 10,000.

Criminal Investigation Division screens referrals for those warranting further investigation. Only 30 to 40 percent of referrals from the regular audit program are accepted for criminal investigation. Of those which are fully investigated, only roughly 40 percent are recommended for criminal prosecution; and of those recommended, less than half result in indictments or convictions.<sup>8</sup>

Thus, based upon the regular referral program, only about 5-10<sup>9</sup> out of 100 audit referrals end up as criminal convictions. Such a winnowing process implies that the TCMP referrals of 20 per 10,000 might translate into 1-2 criminal convictions per every 10,000 returns.<sup>10</sup>

For the more than 87 million individual income tax returns filed last year, these data suggest potential criminal violators numbering somewhere around 10,000. This figure may strike one as awfully low. Of course, these figures do not include criminal nonfilers, nor do they include corporate tax offenses. Among current criminal tax prosecutions, roughly 25 percent involve nonfilers (though this proportion as likely reflects policy priorities as incidence). Perhaps more important, these figures reflect incidents which not only would be detected under present IRS investigation procedures, but prosecuted under current prosecution standards--something that may tell us more about IRS choice of civil over criminal enforcement strategies than about offense prevalence.

#### Estimates of Serious Civil Violations on Individual Returns

Table 4.2 presents rates for serious civil--as compared with criminal--offenses based upon the same TCMP data. Rates estimated for civil fraud averaged 9 per 10,000 across

---

<sup>8</sup>According to IRS directives, lack of investigative resources is not a grounds for rejecting a referral for criminal investigation. Even after acceptance of the referral, only a small number (5-10%) are recorded as closed for lack of resources.

<sup>9</sup>Figures vary by source. Data though limited from the Examination (Audit) Division on their referrals differ from Criminal Investigation Division statistics on receipts of audit referrals.

<sup>10</sup>Criminal convictions are based upon counts of taxpayers; the rate, however, is relative to return filings which average -- exclusive of dependents -- roughly 1.5 taxpayers per return.

the three surveys.<sup>11</sup> In contrast, estimated rates for negligence violations are much higher--123 per 10,000. Despite some suggestions of an increasing rate over time for civil penalty violations,<sup>12</sup> estimates appear remarkably stable across surveys despite the small n's, shown in Table 4.2, on which they were based.

The low rate for civil fraud raises questions. On its face, it is unclear why civil fraud penalties were asserted in less than half the cases referred for criminal investigation. Though TCMP survey instructions called for the completed survey forms (checksheets) even on cases referred for criminal investigation, this procedure differs from normal audit practice and may not have been done consistently. Incomplete survey forms on TCMP criminal referrals--while not affecting total survey estimates on most items--would materially affect our civil fraud counts.

Because of the low priority assigned by IRS to TCMP data on criminal referrals (and the few number of TCMP cases on which a criminal referral occurred), this aspect of the survey design may not have been closely monitored. Further, though an internal audit of each TCMP survey was conducted by IRS Internal Audit Division to verify that required procedures were being properly carried out, these involved such small subsamples of each TCMP survey that it is possible that few or no criminal investigation cases were included.<sup>13</sup>

The estimates for total civil penalties asserted--around 3.2 million-- is also widely at variance with penalties assessed, which in 1978 on individual income tax returns alone amounted to nearly 7 million (Annual Report of

---

<sup>11</sup>This rate has been adjusted to take into consideration a small number of cases excluded from the sample because they were already under criminal investigation at the time of the TCMP survey. (See footnote 3 at Table 4.2.)

<sup>12</sup>Rates for negligence rose from 86 (1965) to 106 (1969) to 170 (1973). Other indications, however, suggest that the increase may reflect a change in enforcement policy, rather than any real increase in negligence violations.

<sup>13</sup>The rate computed on TCMP audits, however, may also reflect inconsistencies in IRS policies in asserting the civil fraud penalty. A 1974 internal agency report on the civil fraud penalty concluded that it was often not asserted in cases returned from criminal investigation, though practices differed widely by office (Task Force Report on Civil Fraud Penalty, 1974).

TABLE 4.2

ESTIMATED RATES OF SERIOUS INCOME TAX OFFENSES: NEGLIGENCE,  
CIVIL FRAUD AND CRIMINAL VIOLATIONS  
(Income Tax Returns Filed by Individuals)

	Returns With Violations Within Combined TCMP Samples <sup>1</sup>	Rates per 10,000 Returns				Total Violations on Filed Returns <sup>2</sup>		
		TCMP Tax Years			Average Across Samples (adj) <sup>3</sup>	Estimated Occurrence on Returns Filed <sup>4</sup>	Estimated Penalties Currently Detected By Audits <sup>5</sup>	Percent Detected
		1965	1969	1973				
Criminal Penalties								
Referrals	668	22	16	17	20	175,000	7,000	4%
Offense(s)	-	-	-	-	-	10,000 <sup>6</sup>	400 <sup>6</sup>	4% <sup>6</sup>
Civil Penalties								
Civil fraud	238 <sup>7</sup>	67	77	87	97	80,000 <sup>7</sup>	6,400	8% <sup>7</sup>
Negligence	3,068	86	106	170	121	1,100,000	64,000	6%
Other <sup>8</sup>	4,991	117	103	109	237	2,100,000	na	na
Total civil <sup>8</sup>	8,297	209	216	287	365	3,200,000	na	na

<sup>1</sup>Total combined sample size in the three TCMP surveys (Phase III, Cycles 2, 3, 5) was 140,376 returns. The sample was a stratified cluster design. Figures indicated within this sample are the number of returns on which these specific violations were found.

<sup>2</sup>1978 Estimates.

<sup>3</sup>Adjusted for sample exclusions of cases which were already under criminal investigation (see footnote of Table 4.1). Adjustments in case of criminal and civil fraud were based on the ratio of estimated exclusions to total returns with violations of type shown.

<sup>4</sup>Estimated rates in the column labeled "Average Across Samples" are applied to the number of individual income tax returns filed in 1978 of 87,386,093. Numbers are rounded to emphasize the lack of precision inherent in the estimation process; because of rounding components of civil penalties do not add precisely to total, which has been rounded to 3.2 million.

<sup>5</sup>Since criminal referrals from the Examination Division and prosecutions resulting from this source on income tax returns for individuals were not separated from total examination referrals, figures shown are estimated from those totals reported.

<sup>6</sup>The rate of criminal convictions resulting from audit referrals in the regular audit program was used as the basis for estimating criminal tax offenses from TCMP referrals. As a result, the rate of "detection" for potential referral versus potential criminal offenses is mathematically identical.

<sup>7</sup>The estimate for rate of civil fraud appears much too low, thus inflating the estimate of the proportion of violations detected; since the number of TCMP returns for which civil fraud penalty was assessed is only a third of those referred for criminal prosecution, it appears that this item was unreliably filled out by TCMP examiners.

<sup>8</sup>The counts reflect not the number of civil violations, but the number of returns on which civil penalties were asserted. Only the principal civil penalty asserted was checked. While these counts should reflect any penalties asserted during the TCMP audit, instructions received by the TCMP examining officer are not entirely clear whether penalties asserted at the service center such as for late filing or payment were counted or not. Since the rate of assertion of such penalties in 1978 greatly exceed that based upon TCMP results (total assessments on individual income tax returns was almost 7,000,000) it is clear that they were usually not included. It is unclear, however, whether these penalties were consistently excluded in the adjustment counts on all TCMP returns.



the Commissioner, 1978;95). Some of this difference may be explained by the TCMP sample design which covered only returns filed during the 12 months following the close of the tax year. This would have excluded some delinquent filings. (See "Sample Design Methodology," and "Computer Selection of IMF TCMP Sample," unpublished IRS reports on various TCMP cycles.) Nonetheless, the size of the difference suggests that assessments made by Service Centers for late filing or late payment may not have been consistently included on the TCMP checksheets.

Figures in Table 4.2 also provide some estimates of potential enforcement workloads if all serious violations were subject to detection and punishment. Were this to occur, the Criminal Investigation Division (CID) would experience an estimated twenty-fold increase in cases.<sup>14</sup> Current CID special agents number 2,800, not counting supporting and clerical CID staff. Twenty times 2,800 would be 56,000, or approximately twice the total number of enforcement officers in audit, collection and criminal investigation combined. With a comparable increase in support staff, CID would require more than the current IRS workforce just to process criminal referrals.

This, of course, does not take into consideration the vast expansion in civil auditors and revenue agents required to generate these referrals, or the increase in attorneys at IRS, Justice, and in U.S. Attorney's offices needed to handle the increase in court prosecutions. Currently, for example, only 1 in 50 returns receives a civil audit. Even if more efficient means were developed to select cases with criminal potential,<sup>15</sup> it would require a vast increase in audit staffing to generate these referrals. An across the board, twenty-fold increase in IRS enforcement persons (who now total over 27,000) would mean a staff of over a half million agents.

---

<sup>14</sup> This assumes that the rates of audit referrals to total violations detected by audits is the same as the ratio of referrals from other sources relative to the remaining violation.

<sup>15</sup> Unlike the civil area, little systematic work has been done by IRS to develop a DIF-like formula to predict potential criminal tax violations. While the IRS staffing currently allocates criminal investigators in part as a function of civil DIF score distributions, there is no hard information that civil DIF scores are predictive of criminal violation rates.

### Variations in Serious Violations by Taxpayer Class

Not unexpectedly, the rate of serious violations varies sharply with income source. (Presumably, it also varies by level of income, but IRS did not prepare tabulations relating violations to the level of actual -- rather than reported -- income.)

As shown in Table 4.3, individuals receiving income from business, farm or a profession have violation rates 5 to 9 times higher than wage-earners or salaried individuals.<sup>16</sup> One might guess that this reflects greater opportunities for evasion by business and professionals; it may also reflect the relative ease with which criminal intent can be shown for violations typical to the two groups -- understatement of (business) income versus overstatement of deductions (wage-earners). The rates again, even with the further breakdown, showed stability across surveys. Because business returns make up only 12 percent of the total N, expected sampling variability is somewhat larger for these estimates.

The increase previously noted for negligence violation occurs for both business/professional and wage-earner categories. While the "other" penalty category also shows a steady increase (with exception of 1969 business returns), neither civil fraud or criminal referrals show consistent time trends, though again all estimates are subject to higher sampling variability given the small n sizes.

### CONCLUSIONS

Alternative ways to measure offense prevalence--particularly where victim reports are either not applicable or unavailable, as for many white-collar crimes,--are needed. Without measures of the extent or seriousness of offenses, both research and policy decisions are constrained.

The approach examined here, the random investigation method, offers one alternative. While not unknown to other agencies, it has been most extensively applied over the longest period of time by the Internal Revenue Service in measuring tax violations.

---

<sup>16</sup>Serious violations by corporations are not covered, of course, in these tabulations--only serious violations on returns filed by individuals.

TABLE 4.3

COMPARISON OF ESTIMATED SERIOUS VIOLATION RATES BY OFFENDER CLASS  
(Income Tax Returns Filed by Individuals: Rate per 10,000 returns)

	All Returns				Wage-earners and Salaries <sup>1</sup> (nonbusiness)				Business and Professional <sup>1</sup>				Ratio of Violation on Business to Nonbusiness Sample Returns
	TCMP Tax Year				TCMP Tax Year				TCMP Tax Year <sup>2</sup>				
	1965	1969	1973	Average Across Samples (adj) <sup>3</sup>	1965	1969	1973	Average Across Samples (adj) <sup>3</sup>	1965	1969	1978	Average Across Samples (adj) <sup>3</sup>	
Criminal Referrals	22	16	17	20	14	8	6	10	70	71	97	87	9
Civil Penalties													
Civil fraud	6	7	8	9	3	5	3	5	28	17	51	40	8
Negligence	86	106	170	121	54	64	125	81	293	413	506	404	5
Other <sup>4</sup>	209	216	287	237	125	154	199	159	758	668	944	790	5
Total civil	301	329	465	365	182	223	327	244	1,079	1,098	1,501	1,226	5

<sup>1</sup>Taxpayers filing a Schedule C (Business Income) or F (Farm Income) with their individual Form 1040 income tax returns are classed a "business and professional"; "wage-earners and salaried" are those (referred to by IRS as nonbusiness returns) not filing a Schedule C or F.

<sup>2</sup>Because professionals' returns comprise only twelve percent of total returns expected sampling variability of these estimates is greater.

<sup>3</sup>Adjusted for sample exclusions of cases which were already under criminal investigation (see footnote of Table 4.1 and footnote 3 of Table 4.2). The same adjustment factor was used for wage earners and for business and professional return classes.

<sup>4</sup>The counts reflect not the number of civil violations, but the number of returns on which civil penalties were asserted. Only the principal civil penalty asserted was checked. While these counts should reflect any penalties asserted during the TCMP audit, instructions received by the TCMP examining officer are not entirely clear whether penalties asserted at the service center such as for late filing or payment were counted or not. Since the rate of assertion of such penalties in 1978 greatly exceed that based upon TCMP results, (total assessments on individual income tax returns was almost 7,000,000) it is clear that they were usually not included. It is unclear, however, whether these penalties were consistently excluded in the adjustment counts on all TCMP returns.

SOURCE: Taxpayer Compliance Measurement Program, Returns Filed Phase III, Cycle 2, 3, 5, weighted and unweighted diagnostic tables: 5/990, 9/990, 3/990; A, C tables (RAT).

Until now, most attention in the tax area has been devoted to estimating the prevalence of tax violations. Little has been done to separately estimate that portion violating criminal law. The purpose of this chapter has been to explore the potential of the TCMP random investigation method for assessing this criminal component. Estimates derived from this IRS data base indicate some of the potential uses and versatility of this measurement method. Despite limitations both in the types of offenses for which it is suited and the degree of accuracy and reliability of the data derived, it offers important advantages over our current state of ignorance. Estimated rates were surprisingly stable over time, given sample size and the infrequency of serious violations.

Much work remains. Even with currently existing data, a variety of additional questions could be addressed. How are offender and offense characteristics related? How predictive is general tax compliance of the incidence of criminal and other serious offenses? How predictable are serious violations from characteristics in the return, or are the development of criminal DIF-like formulas a viable option?

Further, current estimates of population rates using TCMP sample data have not taken advantage of information on the total population of returns generated currently from processing of returns at service centers. Investigation of the potential for reducing sample variability in our TCMP estimates using regression or ratio estimators (Cochran, 1963: 154-205) could profitably be explored.

In addition, issues of reliability with the TCMP method could be further explored using cross-item comparisons (criminal referral versus civil fraud), and the matching of TCMP data with final assessments entered on the Master File for civil penalties and other tax assessments.

New research would also be valuable. One important area would systematically increase (and decrease) the length and thoroughness of audits, as well as varying the particular audit procedures used. (As, for example, the use of indirect methods for detection of unreported income.) This might tell us how much additional (or less) fraud would be detected using more exhaustive (or different) procedures. Careful research into the relationship of the length of audit to results would also have a bearing on determining how much time was reasonable to allow in the regular examination program for ensuring "quality audits." These results might also assist in unraveling apparent time trends in TCMP measures of noncompliance from the changing length of an average TCMP audit over the previous decade.

More research would also help in determining what other types of offenses the method is suited to measure (and what the related cost factors would be), as well as in assessing the validity of the estimates derived. For example, TCMP surveys might also be resumed on a pilot basis in the nonfiler area, and extended to the large corporate returns area, to improve measures of these important segments of noncompliance.

In short, the potential information now available for analysis in the TCMP data base remains largely untapped.(12)



## CHAPTER V

### ENFORCEMENT STATISTICS

In addition to statistics and other indirect indices on the extent and seriousness of tax violations, the Internal Revenue Service compiles an extensive array of information on enforcement actions. These data, along with information on budgetary and staffing resources, will be described in the following sections as we examine the IRS as an enforcement agency. Statistics on criminal enforcement activity will be examined in more depth in Chapter VI.

#### IRS--AN ENFORCEMENT AGENCY

Organizationally, the Internal Revenue Service can be divided into two functional areas: (a) bookkeeping (processing receipts and updating tax accounts) and (b) enforcement. Despite the massive tasks of keeping tax accounts and processing the deluge of paper, tax forms, and information returns which descend upon the agency each year, the IRS both in terms of its budget and staffing is primarily a law enforcement--not an account processing--agency. Though over 97 percent of tax revenues are paid by taxpayers under our so-called "voluntary self-assessment system" and only 3 percent are derived from direct enforcement activities, fully two-thirds of IRS's money and manpower are devoted to enforcement activities.<sup>1</sup> Sources of gross collections as compared with expenditures under major budget activities are shown in Tables 5.1 and 5.2 for fiscal 1978.

To some extent even the figures shown underestimate the actual resources committed to enforcement. This has occurred since many enforcement-related activities have become computerized and are now reflected under the budget activity for Accounts and Taxpayer Services (data processing) reported in Table 5.2. Among these are the mathematical verification of returns, the matching of income reported on tax forms with information documents, the DIF scoring and initial screening of returns for audit, collection of delinquent accounts through automatic offset against next year's refunds, and a host of management

---

<sup>1</sup>That 97 percent of the tax revenues are collected through self-assessment does not mean that 97 percent of true tax liabilities are paid, since some taxpayers do not comply and escape enforcement action (see Chapter III). While the affect of marginal changes in enforcement on compliance are unknown, if enforcement was completely discontinued, it seems highly likely that "voluntary" compliance would drop.

Table 5.1

INTERNAL REVENUE GROSS COLLECTIONS  
Fiscal 1978

Source	\$'s (millions)	%
From direct enforcement:		
audit of returns	4,994*	1.2
securing delinquent returns	1,674*	0.4
collecting delinquent taxes	<u>3,014</u>	<u>0.8</u>
Subtotal	\$ 9,682	2.4
From self-assessment:	\$ 390,094*	97.6
TOTAL GROSS COLLECTIONS	\$ 399,776	100.0

\* Available figures for assessments only, not collections; self-assessment figure derived by subtraction.

Table 5.2

I.R.S. BUDGETARY EXPENDITURES  
Fiscal 1978

	Total		Personnel Only	
	\$'s (mill.)	Cum. %	\$'s (mill.)	Cum. %
TOTAL EXPENDITURES	\$1962		\$1536	
Budget Activity:				
Executive Direction	\$ 54	3%	\$ 44	3%
Compliance	1242	66%	1040	71%
Accounts & Tax- payer Services	666	100%	452	100%

Source: 1978 Annual Report of the Commissioner of Internal Revenue



information systems to monitor case processing and control workloads.

However, as seen in Figure 5.1, extending back before the period of change to computer (ADP) accounting, this partition of resources between data processing (accounting) and compliance (enforcement) has remained between a one-fourth/three-fourths to a one-third/two-thirds division.

#### Examination, Collection, and Criminal Investigation: The Major Enforcement Divisions

The job of enforcing tax obligations falls largely upon three divisions within IRS:

- (a) Examination Division
- (b) Collection Division
- (c) Criminal Investigation Division

The Examination Division is responsible for investigating whether tax liabilities have been properly reported on returns. Returns are selected for audit, and amounts reported on returns are verified by revenue agents or tax auditors through examination of a taxpayer's records and other supporting documentation. Most audits are conducted through a personal interview either at an IRS office or at a taxpayer's place of business or residence; some are conducted through correspondence (including those conducted by auditors at IRS Service Centers.) On the basis of this examination, the return may be accepted as filed or adjustments proposed. In fiscal 1978, 2.3 million audits were conducted. These results in recommendations of \$5 billion in added taxes and penalties.

The Collection Division has primary responsibility for enforcing the three remaining duties. Under its delinquent accounts program, taxes not paid voluntarily are collected through: (a) levying upon the taxpayers' wages, salaries, bank accounts or other sources of income; and (b) seizure and sale of taxpayer assets (homes, cars, businesses or other properties). Where property is not seized outright, liens may be filed. Employers liable for withholding taxes may be similarly subject to enforced collection by IRS revenue officers. Through its delinquent returns program, the Collection Division also investigates taxpayers who may have failed to file, in order to secure the required returns along with payment of any outstanding liabilities (including civil penalties). In fiscal year 1978, 2 billion delinquent accounts were collected involving 3 billion in taxes. One billion delinquent returns were also secured, representing an additional 1 billion in taxes.

Figure 5.1

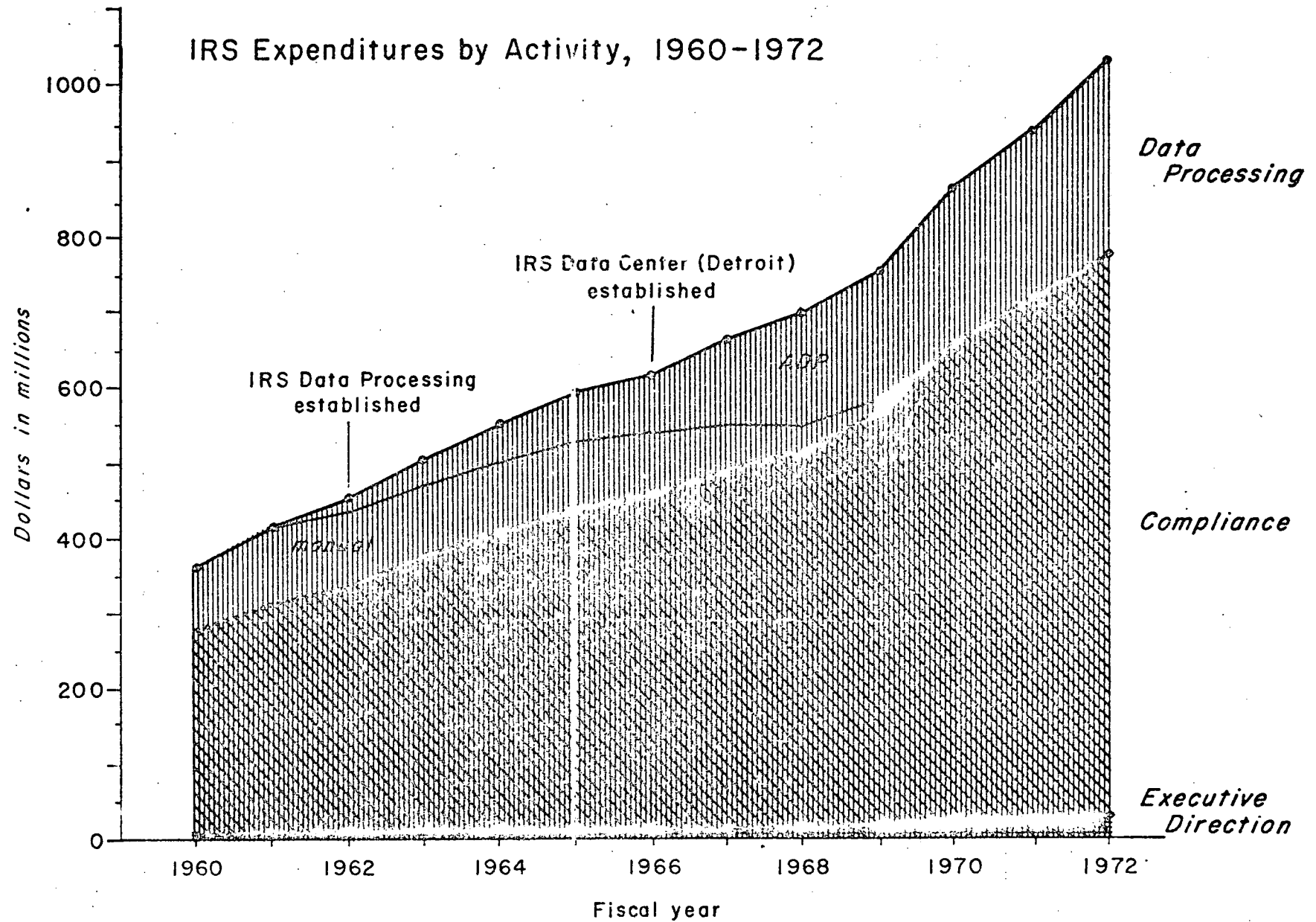


Figure 5.1 I.R.S. expenditures by major budget activity from before the computerization of account processing (marked by the establishment of a separate data processing division) through the computerization of many enforcement functions (reflected in the establishment of a separate I.R.S. Data Center in Detroit largely for internal management statistics on enforcement and compliance).

Jurisdiction of both the Examination and Collection Division is limited to civil enforcement procedures. Where suspicion of criminal liability is raised, the case is referred to the Criminal Investigation Division. If the Criminal Investigation Division accepts the case for investigation, civil enforcement is typically postponed until the criminal matters are resolved (IRM 1218 (P-4-84)). Either Collection or Examination personnel may assist special agents of the Criminal Investigation Division in the investigation at the latter's request. In fiscal year 1978 there were almost 9,000 criminal investigations completed; criminal prosecution was recommended on almost 40 percent. A total of 1414 taxpayers was convicted of criminal tax violations.

Basic statistics on the frequency of enforcement actions during fiscal 1978 by each of these three divisions are given later in Tables 5.4 and 5.5, where they are compared with the volume and rates of enforcement actions in earlier years.

Other IRS Units Involved in Enforcement Actions:  
Appeals, Chief Counsel, EP/EO and Data Services

While these three divisions have primary enforcement responsibility, other offices and divisions of IRS also may either initiate enforcement action, or become involved in enforcement activity. Disputes over audit recommendations can be appealed by the taxpayer to the IRS Appeals Division,<sup>2</sup> which hears and informally acts upon administrative appeals. IRS attorneys under Chief Counsel's Office handle litigation initiated by the taxpayer in the U.S. Tax Court, and coordinate with the U.S. Justice Department and the U.S. Attorney's offices other civil and criminal tax litigation in the U.S. District Courts, the U.S. Court of Claims, the U.S. Courts of Appeal, and the U.S. Supreme Court--whether initiated by the taxpayer or by the government.

For certain classes of taxpayers or taxes, special offices have been set up. The Office of International Operations (OIO), for example, handles compliance activities for U.S. citizens living abroad and foreign entities doing

---

<sup>2</sup>Prior to October, 1978, there were two levels of appeal within IRS: (a) the district conference level, and (b) the appellate conference level. Last fall the district conference function, formerly part of the then Audit Division, was consolidated with the Appellate Division. Appellate was renamed the Appeals Division, and the two-tier appeals route was reduced to one level of administrative appeal.

business in the United States. Enforcement supervision over tax exempt organizations, as well as over the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), is handled by the Office of Employee Plans and Exempt Organizations (EP/EO).

Generally, frequencies of enforcement action for the OIO and EP/EO are very small. Currently, statistics for the OIO are included within reported enforcement totals previously shown in Table 5.3. They are only a very minor component, however, and their inclusion or exclusion would not materially affect comparisons. OIO audits last year, for example, totalled less than 10,000 in comparison to over 2,000,000 total examinations conducted.

Most activity related to Employee Retirement Plans has been devoted to the issuance of guidelines and model plans, and the review and issuance of determination (approval/disapproval) letters on proposed new plan applications or amended plans. In the four years since enactment of ERISA, only 8 percent of IRS enforcement resources in the area have been devoted to the examination of currently operating plans, with 92 percent absorbed by processing applications (requests for determination). The number of audits of such plans last year was 12,461 or approximately 1.3 percent of total plans, estimated at 990,000. Audits were 70 percent less than the number conducted in fiscal 1974 just prior to ERISA's enactment.<sup>3</sup>

A similar picture is true for the exempt organization area, where the majority of resources have been devoted to processing applications, and not examination of exempt returns. Relative to the 2.3 million audits conducted by IRS, the Exempt Organization office examined only 17,238 returns last year. However, the rate of examination (based upon a total of 810,048 exempt organizations) was 2.1 percent or roughly equivalent to the overall examination rate for returns of all types. Returns examined in the previous two fiscal years were 9,803 (1977) and 16,635 (1976).

Finally, many routine enforcement actions are computer generated at the ten IRS Service Centers where returns are processed. These activities fall under the jurisdiction of the Office of Data Services. Penalties, such as those for late filing or payment, are automatically assessed when the taxpayer's account is updated on the Master File. Similarly, before any claimed refund is issued, the computer automatically subtracts any taxes due for previous periods,

---

<sup>3</sup>U.S. Comptroller General, Internal Revenue Service Efforts and Plans to Enforce the Employee Retirement Income Security Act, March 28, 1979, p. 1, 4.

and credits the taxpayer's account for payment received. Computer generated notices are sent to the taxpayer advising him or her of the actions taken. As returns are computer processed upon filing, arithmetic calculations are also checked. Mistakes discovered are computer corrected and notices are generated to taxpayers of their changed liability.<sup>4</sup> Further, some information returns from businesses and organizations required to report wages, interest, dividends and other payments made to others are computer matched against the returns of the recipient of such income to verify that the amounts were properly reported. Statistics are currently compiled by IRS on penalty assessments (see earlier Table 1.9) which number approximately 14 million. Mathematical verification of returns uncovers both over- and under-payments. For income tax returns filed by individuals, for example, around 2 million out of the 5.4 million mathematical errors that were made by taxpayers resulted in too much, rather than too little, tax being paid. While the average dollar amount in these enforcement actions is quite small--penalties average around \$50--their total numbers exceed all other enforcement actions combined.

The volume of enforcement actions vary greatly by type. Few, however, fall within the boundaries of white-collar crime. Out of the estimated 14 million taxpayers who receive some type of tax penalty from the IRS annually, less than 10,000 become the subject of a criminal investigation and only 1,000 to 1,500 result in an actual criminal conviction (previously reported in Table 1.9). Thus, of the three major divisions and numerous secondary IRS offices which play a role in the enforcement process, it is the Criminal Investigation Division whose jurisdiction covers matters of most direct relevance to white-collar crime.

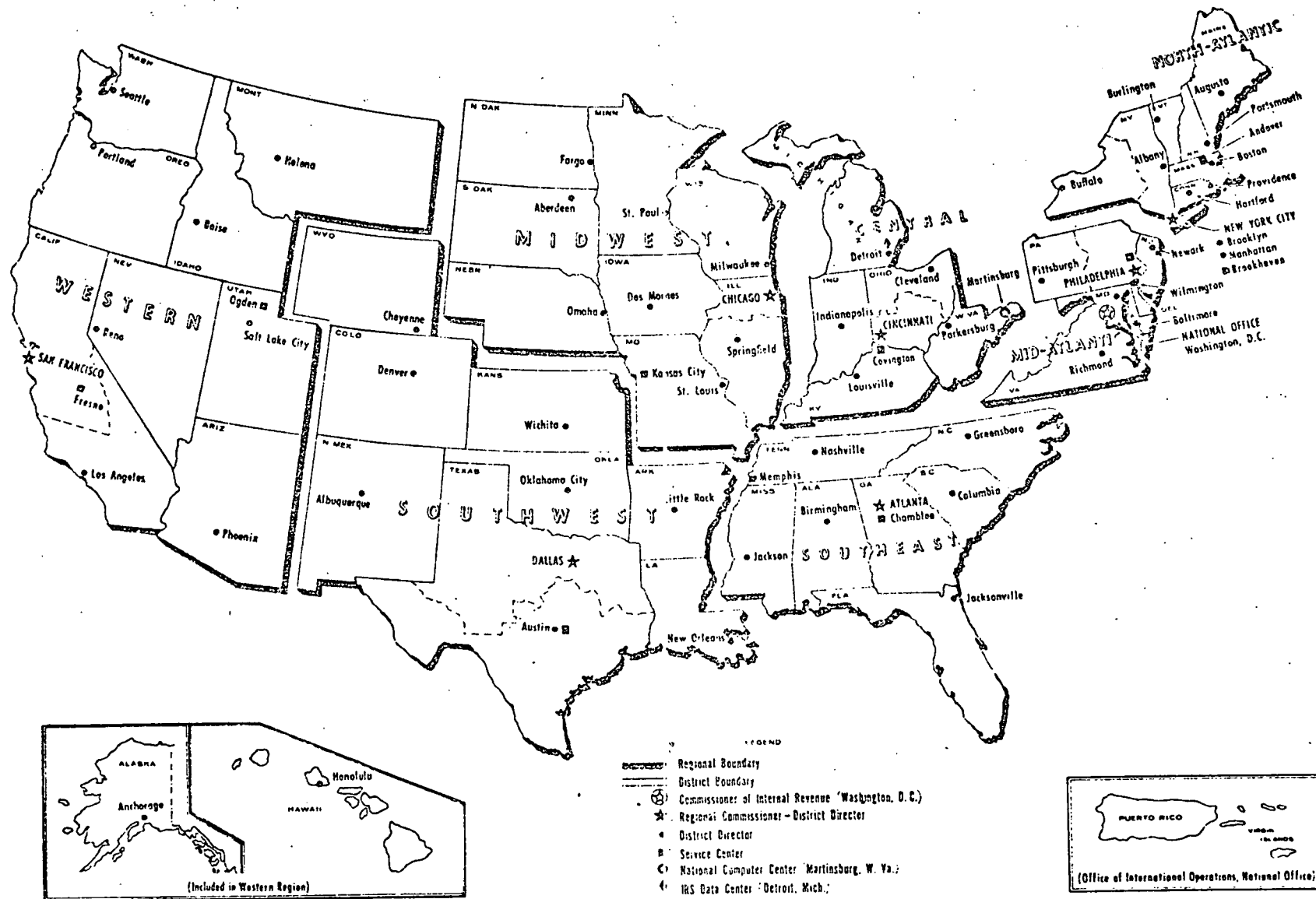
#### Geographic Distribution of Enforcement Activity: National, Regional and District Offices

IRS's subnational structure, diagrammed in Figure 5.2, also lends itself to presentation of statistics on the geographic distribution of enforcement activities. IRS basically has a three-tiered level of spatial organization with national (n=1), regional (n=7) and district offices (n=58). Further, since district office boundaries follow state lines (except in the six populous states of California, Illinois, New York, Ohio, Pennsylvania and Texas, where the state is subdivided into two or more

---

<sup>4</sup>This area was expanded with the passage of the Tax Reform Act of 1976, Public Law 94-455. Section 1206 greatly expanded the definition of mathematical errors, to include not simply mistakes in arithmetic calculations but so-called "unallowable items" previously handled as audit adjustments.

Figure 5.2 Internal Revenue Regions and Districts



districts), enforcement statistics can easily be presented for each state. This facilitates many useful comparisons with other state-based data series. Examples of the use of geographic distribution of tax statistics was previously illustrated in Chapter III, where measures of tax violations were visually displayed (see Figures 3.4 through 3.7).

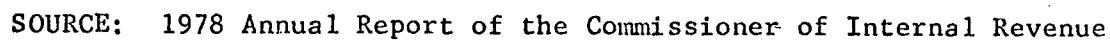
Examination of the geographic distribution of enforcement activity is of interest not simply because it facilitates comparison at the state level with other data systems, but because it helps illuminate the operation of an enforcement agency in which authority is highly decentralized. Indeed, the Committee on Economic Offenses of the American Bar Association, Section on Criminal Justice, noted in its final report (1976: 46) that the IRS, and in particular the Criminal Investigation Division, "is the only completely decentralized [federal] government enforcement agency." Most activities are carried out by revenue agents, tax auditors, special agents, or revenue officers attached to particular posts-of-duty within any one of fifty-eight district offices, and many enforcement decisions are entrusted to these agents, with only minimal supervisory review.

Whether at the district or regional level, each enforcement division--Examination, Collection and Criminal Investigation--has a director (district chief or Assistant Regional Commissioner (ARC)) who reports--not to his/her counterpart in the national office,--the Director of Examination or Collection or Criminal Investigation--but to his/her respective office head. Thus the District Chief of Criminal Investigation in Seattle reports not to the Division Director in Washington, D.C. but to the District Director in Seattle, who reports in turn through the Regional Commissioner in San Francisco.

Regional operations are monitored by the national office, which also sets major agency enforcement policies. At the head of the agency in its national office in Washington, D.C. is the Commissioner of Internal Revenue, a political appointee. Under him are a Deputy Commissioner, Assistant Commissioners for each major functional area, and Division Directors, including a division director for each of the enforcement divisions: Examination, Collection and Criminal Investigation. (See organizational chart, shown as Figure 5.3.) In addition to the offices and divisions previously mentioned, legal activities are carried out under the Office of Chief Counsel. While this office is also part of IRS, the Chief Counsel is not under the Commissioner and is the only other separate political appointee. The Chief Counsel's office also has a field organization of regional and district counsel offices.

Finally, IRS as an agency is part of the U.S. Treasury

INTERNAL REVENUE SERVICE ORGANIZATION CHART  
1978





Department. While both the Commissioner and Chief Counsel are under the Secretary of the Treasury, practically speaking they are subject to very little direction except in matters of budget, tax legislation and other major issues involving congressional or presidential relations.

#### ENFORCEMENT ACTIVITIES OVER TIME

Basic data on enforcement activities and personnel for 1948, 1958, 1968, and 1978 are presented in Tables 5.3 through 5.5. While comparisons between now and thirty years ago are somewhat problematical because of organizational changes in IRS in 1952 (see footnotes accompanying Table 5.3-5.5), these data show a number of interesting trends. Enforcement officers in the three primary enforcement division of IRS--Examination, Collection and Criminal Investigation--have increased at about the same rate as return filings. In 1948 there were approximately 185 enforcement officers per million return filings; in 1978 there were 200 (see Table 5.3 for growth in enforcement officers, Table 5.4 for growth in return filings, and Table 5.5 for computed rates). IRS's budget has similarly kept pace with the growth in tax revenues (Table 5.5).

Despite the fact that budgetary resources devoted to our federal tax agency, along with enforcement personnel, have generally kept pace with the growth in total returns and collections during the post World War II period, the enforcement coverage (as well as the proportion of revenue derived from direct enforcement actions) has suffered a relative decline. Audit coverage--the proportion of returns audited--fell during the thirty year period nearly fifty percent from 3.2% to 1.7%; total enforcement coverage (combining enforcement actions of all three IRS divisions) dropped from 6.4% to 3.8%, and the proportion of total dollar revenue collected as a result of direct enforcement actions declined by more than half (6.3% to 2.4%).

As we have seen from Chapters III and IV, the volume of tax violations currently exceed available enforcement resources. Accordingly, this decline is not attributable to an absence of potential violations requiring enforcement attention. Instead each enforcement action entailed, on average, more time to complete. The primary culprit appears to be increasing complexity in IRS's workload. Both the growth in the complexity of tax laws (earlier discussed in Chapter II) and the movement of taxpayers into higher income and tax brackets (noted earlier in Chapter III), have resulted in growing complexity in returns which are filed. The burgeoning complexity has imposed an increasing burden on taxpayers attempting to comply with tax requirements, while at the same time making it more time-consuming and expensive for IRS to carry out its enforcement functions.

The apparent result has been a relative drop during the post World War II period in enforcement coverage.

Table 5.3

INTERNAL REVENUE SERVICE  
COMPARISON OF TAX ENFORCEMENT PERSONNEL, 1948 - 1978<sup>1</sup>  
(on roll at end of fiscal year)

Enforcement Officers <sup>2</sup> by Type of Activity	Fiscal Year							
	1948		1958		1968		1978	
	#	%	#	%	#	%	#	%
Audit of Returns:								
revenue agents								
office auditors <sup>5</sup>	8,365	48%	12,605	64%	16,062	67%	18,684	69%
	(11,365)	(65%) <sup>3</sup>						
Collection of Delinquent								
Accounts and Returns:	(5,022)	(29%) <sup>3</sup>						
revenue officers	8,022	46%	5,476	28%	6,030	25%	5,784	21%
Criminal Investigations:								
special agents	1,006	6% <sup>4</sup>	1,470	7.5% <sup>4</sup>	1,731	7.3%	2,787	10%
TOTAL FIELD OFFICERS	17,393	100%	19,551	100%	23,823	100%	27,255	100%

For source and footnotes see end of Table 5.5.

Table 5.4 Internal Revenue Service Comparison of  
Tax Enforcement Activity, 1948-1978

Type of Activity	Fiscal Year				% change '48 - '78
	1948	1958	1968	1978	
Return Filings*					
All Returns	93.8	93.5	107.6	136.7	+ 46%
Income Tax Returns	74.4	69.2	83.5	100.8	+ 35%
Gross Revenues	\$39.1	\$80.0	\$153.6	\$399.8	+922%
Income Tax Revenues	31.2	59.1	108.0	278.4	+792%
Enforcement Activities*					
Audit of Returns					
Total Audits	3.0 <sup>6</sup>	2.8	2.9	2.3	- 27%
Income Tax Audits	2.6 <sup>6,7</sup>	2.5	2.7	2.1	- 27%
Additional Taxes <sup>8</sup>					
total audits	1.9	1.5	2.2	5.0	+163%
income tax audits	1.7	1.3	1.8	4.3	+153%
Collection of:					
Delinquent Accounts: <sup>9</sup>					
total disposals	1.8 <sup>10</sup>	3.0	2.4	2.0	+ 13%
taxes collected	\$0.3 <sup>10</sup>	\$1.4	\$1.5	\$3.0 <sup>11</sup>	+976%
Delinquent Returns					
number secured	1.3	0.9	0.7 <sup>12</sup>	1.0 <sup>12</sup>	- 26%
taxes involved <sup>8</sup>	\$0.3	\$0.1	\$0.3 <sup>12</sup>	\$1.0 <sup>12</sup>	+509%
Criminal Investigations: <sup>1</sup>					
Investigation Cases	3806	4538 <sup>13</sup>	9739	8713	+129%
Prosecution Recommend.	1348	(17759) <sup>14</sup>	1620 <sup>14</sup>	3429	+154%
Indictments Returned	424 <sup>15</sup>	1359	1026	1724	na
Prosecution disposals:					
plea--guilty/nolo	388 <sup>15</sup>	968	638	1189	na
convicted trial		128	118	225	na
acquitted	8 <sup>15</sup>	106	39	70	na
nol-prossed/dismiss.	na	325	944	119	na
total disposals	na	1527	1739	1603	na

\* Numbers in millions, amounts in billions of dollars, except in criminal investigations where actual count given. For other notes see end of Table 5.5.

Table 5.5 Internal Revenue Service Budget, Staffing  
and Enforcement Activity Ratios, 1948-1978

Index or Rate	Fiscal Year			
	1948	1958	1968	1978
<u>Agency Budget/Staffing Ratios</u>				
\$millions IRS budget per tax revenues \$billions	4.7	4.2	4.6	4.9
enforcement officers per million return filings:				
auditors	(120) <sup>3</sup>	135	149	138
revenue officers	( 56) <sup>3</sup>	59	56	42
special agents	11	16	16	20
Total <sup>1,2</sup>	185	209	221	200
<u>Enforcement Activity Rates</u>				
% of total collections from direct enforcement	6.3%	3.8%	2.6%	2.4%
% of total return filings audited	3.2% <sup>6</sup>	3.0%	2.7%	1.7%
(income tax only)	3.5% <sup>6,7</sup>	3.6	3.2	2.0
with delinquent accounts	1.9% <sup>10</sup>	3.2	2.2	1.4
delinquent returns secured	1.3	1.0	0.7 <sup>12</sup>	0.7 <sup>12</sup>
Total Enf. Actions <sup>1</sup>	6.4%	7.2%	5.6%	3.8%
Criminal Activity per million return filings: <sup>1</sup>				
prosecution recommend's	14.4 <sup>15</sup>	24.3 <sup>14</sup>	15.0 <sup>14</sup>	25.2
criminal convictions	4.1 <sup>15</sup>	11.7	7.0	10.3

For source and notes on Tables 5.3, 5.4, 5.5, see following page.

### Notes Accompanying Tables 5.3, 5.4, 5.5

1. These figures do not include enforcement personnel of the former Alcohol, Tobacco & Firearms Division (AT&F) which in 1972 was transferred out of I.R.S. and made a separate Bureau within the Treasury Department. Figures on enforcement activities and criminal investigations also exclude AT&F investigations.

2. These figures are for actual enforcement officers in the field, and exclude support and clerical staff.

3. The division between audit and collection enforcement officers was not as clearly differentiated in 1948 as in later years. Prior to the 1952 reorganization of I.R.S., audits of returns with under \$7,000 adjusted gross income were handled by deputy collectors rather than tax auditors. An adjustment for this factor is reflected in the figures shown in parentheses, transferring the equivalent of 3,000 revenue officer staff years to auditor positions. An adjustment of 3,000 was used since in fact in 1954, 3,000 revenue officers were reclassified as revenue agents to bring their positions into alignment with the actual duties they were performing -- auditing returns.

4. In 1948 duties of special agents included internal investigations of I.R.S. personnel and agency operations, transferred to Inspection in the 1952 reorganization. While most of the change in duties occurred in 1952, in 1958 special agents continued to be responsible for investigations of applications for admission to practice before the Treasury Department and charges against enrollees to practice. (While out of total investigations these were substantial in number -- 7,323 out of 25,923 in 1958 -- time devoted to these would because of their simpler nature no doubt be less.) These duties were transferred out of this division after 1958, and are therefore not reflected in the figures for 1968 and 1978. Because of these other investigative duties in 1948, and to a lesser extent 1958, the actual increase in special agents' time available for tax investigations between 1948 and 1978 is probably greater than that shown.

5. By fiscal 1978, the position of office auditor had been renamed tax auditor.

6. What constitutes an 'audit' has varied somewhat over the years, particularly between 1948 and later years. The figure in 1948 may include as audits activities not counted in 1958 - 1978, though the precise differences are unclear from available information. (Figures on audits were not reported in the annual report for 1948 but grouped with other activities; the figures used are derived from congressional sources.)

7. While figures for audits of income tax returns are available for field operations of the Income Tax Unit in fiscal 1948 from unpublished internal agency reports, a breakdown of total audits by type of return examined for deputy collectors is not presently available. The figure shown is therefore an estimate based upon total audits and the distribution of taxes collected by direct examination by type of return in 1948.

Notes accompanying Tables 5.3, 5.4, 5.5 - continued (2)

8. Several possible series could be used, based upon original auditor findings, actual assessments, or final collections. These can differ substantially in amount. Only data on assessments for the time period in question, however, was available for all time points. These figures on assessments include additional taxes, penalties and interest. While it might be desirable to separately break out interest from added taxes and penalties, since the former depends upon the length of time between the filing of the return and the enforcement action (not merely the tax violation itself), data exclusive of interest assessments was not available in earlier years.

9. Delinquent accounts are accounts which continue to be unpaid after assessment occurs for some (varying) period and thus require enforcement attention. Administrative practices have differed over time, both as to the period of delinquency before enforcement action is taken and tolerances (dollar limits) used to screen out smaller accounts not justifying costly enforcement attention. Both of these factors differ not only over time, but between types of returns for the same time period.

10. In 1948 the figure reported is for the number of warrants for distraint issued in enforcing overdue taxes. These were generally not issued until some period of delinquency had elapsed and appear to be the most comparable to the delinquent accounts classification used in later years.

11. Note that while the number of delinquent accounts declined between 1968 and 1978, collections doubled. This may reflect not merely changing delinquencies, but tolerances (see not 9 above) used to keep workloads in line with staffing availability. The dollar figure for delinquent taxes collected, however, may include total collections, not merely those on delinquent accounts closed. (Small delinquencies which do not result in a TDA (taxpayer delinquent account) being issued, may nonetheless be collected through offset against next year's refunds claimed by the taxpayer.)

12. In these years some delinquent returns were secured by audit personnel, either as a by-product of an examination of another return or on referral from the Collection Division. For comparability with earlier years, counts and dollars are based upon those secured by the Collection Division, only. (The dollars secured on delinquent returns by audit in 1968 was \$37.6 million on 52 thousand returns; in 1978 the figures were \$685 million on approximately .3 million returns; the dollars generated from audit on delinquent returns, however, are included in the proportion of collections resulting from direct enforcement action shown in Table 5.5.)

13. In 1958 the system of numbering cases differed. A larger number of preliminary investigations (the figure in parenthesis) were counted, while the humbered' investigations (4538) are those continued for full-scale investigation.

Notes accompanying Tables 5.3, 5.4, 5.5 - continued (3)

14. It is not clear whether the counts are based upon the number of cases or the number of taxpayers involved. Figures for prosecution recommendations in other periods were based upon taxpayer counts.

15. Figures for total tax-related indictments and prosecutions were not available for 1948 from I.R.S. sources; the figures given are for tax fraud cases only. (By way of comparison, in 1958 other tax prosecutions (largely wagering tax cases) were about half again the number of tax fraud prosecutions.)

SOURCE: Annual Reports of the Commissioner of Internal Revenue (1948, 1958, 1968, 1978); various unpublished reports and internal documents of the agency; congressional hearings, chiefly: Hearings before the Subcommittee on Treasury Department, Committee on Appropriations, House of Representatives, 81st Congress, 1st Session; Hearings before the Subcommittee on Treasury Department and Post Office Departments, Committee on Appropriations, U.S. Senate, 81st Congress, 1st Session; Hearings before the Subcommittee on Treasury-Post Office, Committee on Appropriations, House of Representatives, 87th Congress, 1st Session.



## CHAPTER VI

### CRIMINAL ENFORCEMENT ACTIONS INFORMATION SYSTEMS AND DETAILED STATISTICS



## CHAPTER VI

### CRIMINAL ENFORCEMENT ACTIONS INFORMATION SYSTEMS AND DETAILED STATISTICS

While our examination of the entire range of enforcement action is useful, our primary interest here are data sources on white-collar crime. Hence, we now turn to a more detailed look at the nature of the information system IRS maintains on criminal enforcement matters, and the types of data collected. Described here will be the current information system, initiated October 1978. Later, in examining the availability of detailed time series data, the nature of earlier information systems will be touched upon.

#### TERMINAL-BASED CASE MANAGEMENT AND TIME REPORTING SYSTEM (CM&TRS)

The Criminal Investigation Division data system, known as the Case Management and Time-Reporting System (CM&TRS),<sup>1</sup> is an on-line, continuously updated computerized data base "to track the progress of cases and projects, to accumulate time on investigations and other Criminal Investigation activities, and to summarize data for distribution to all management levels" (MT-9570-16, See 110). Data are input and updated through video terminals located in district field offices; likewise, authorized IRS personnel can display via the same remote terminals case information contained in the data system. Part of a larger Integrated Data Retrieval System (IDRS) established to allow access by field staff primarily of the Collection Division to taxpayer account information stored on tapes at IRS Service Centers, the remote terminals within each of the ten Service Centers area are connected to a CDC 3500 computer at the Service Center, whose large disk storage capacity allows instant random access to case information not possible with the earlier developed tape-based master file system (see ADP in IRS, Training No. 2426-01 (Rev. 5-75, p. 199).)

The CM&TRS system contains three separate subparts: (a) case histories, (b) project histories, and (c) time application (including a master file of all Special Agents on the rolls). Monthly output tapes covering each district's activities (including both case and project

---

<sup>1</sup>Information in this section was derived from internal IRS directives, including the Internal Revenue Manual, the Program Requirement Packages (PRP's) on table specifications for programming the system, training material on the use of the system, actual output tables, and discussion with IRS personnel.

listings, as well as statistical compilations) are prepared at each Service Center, and monthly tape extracts of the Service Center CM&TRS file are shipped to the IRS Data Center in Detroit where information from each of the ten Service Centers is merged, and regional and national output tables and listings prepared.

### Case Histories

At the core of the data system is the information on criminal investigations, which are followed to final outcome (conviction and sentencing). Information is stored on an individual case basis. A case enters the data system when a new investigation is started and a case number assigned, and is purged from the system at the end of the fiscal year in which a final disposition is shown. (Internal directives presently call for historical fiscal year tapes to be retained, at least for a period of years.) During the time the case is in the system, each change of status is entered, with the date the change occurred. These status codes are retained, up to a maximum of twenty (20) status changes, to record the progression of the case through investigation, review, referral, prosecution and sentencing.

#### A. Units Counted

A different case number is assigned to each taxpayer under investigation. Where the investigation on a single taxpayer involves more than one type of tax<sup>2</sup> separate case numbers are assigned. In the case of an investigation of a corporation and its responsible officers, a separate case number is assigned to each officer involved, as well as the corporation. A single case, however, can include more than one tax year (even though these are separate offenses), and in general, additional years can be added up until the time the case is closed out. If the same person is later investigated for a different time period, the old case number is not reopened, but a new case number is assigned. (The old case number, however, can be indicated as a

---

<sup>2</sup>The classes of tax used are: (1) income taxes (including self-employment taxes), (2) non-tax violations, (3) wagering excise taxes, (4) wagering occupational taxes, (5) coin operated gambling device taxes, and (6) other taxes (including withheld income and employment taxes, or cases of noncompliance with a notice issued under Sec. 7512 of the Internal Revenue Code on special procedures for accounting and paying over withholding taxes. Excluded are internal revenue taxes enforced by others such as alcohol, tobacco and certain firearms taxes.

"related case" for cross references purposes.) Because the case number includes, as an integral part, a numerical code for the district in which it was initiated, cases which are transferred between districts are given new case numbers. Thus, some double counting can occur, not only of taxpayers, but also of investigations.

#### B. Information Coded

A range of information is recorded on such cases. Codes entered on each case contain information on:

- (a) the characteristics of the suspected offender
- (b) the nature of the suspected offense
- (c) the processing of the case (from investigation through prosecution)
- (d) the final disposition, including any criminal sanctions invoked

Table 6.1 lists the type of information coded on each case within each of these four broad categories. Detailed information on codes used is found in Appendix Tables D.1 through D.6. Characteristics coded on the offender include social security or employer identification number, age, residence, income (Appendix Table D.3), occupation (Appendix Table D.1 and industry (Appendix Table D.2). Where income is derived from illicit sources, a three-digit code for type of illegal activity is included (narcotics, prostitution, loan sharking, labor-racketeering, gambling, etc., see Appendix Table D.4). Thus, the offender codes permit distinguishing tax offenses by persons whose alleged tax offenses are tied to illegal activity rather than to a probable position in the legitimate social order.

Codes used to classify offense types permit aggregation on the basis of any one or combination of the year(s) involved, the type of tax, the nature of the offense, the statutory code provision allegedly violated or the size of the dollar "harm" (tax deficiency). Case processing and final disposition codes include the source of the referral (Appendix Table D.5), and the date and outcome at each stage

TABLE 6.1

INFORMATION CODED ON CRIMINAL INVESTIGATION CASES

I. Characteristics of Suspected Offenders

a. personal identification:

name,<sup>1</sup> (any aliases) and Taxpayer Identification Number (social security number or employee identification number)

b. location: street address, city, county, state, zip code

c. gender

d. place of birth and birth date

+e. occupation (three digit code following OMB guidelines)

+f. industry (two digit code)

g. trade, business, partnership name used (where applicable)

+h. adjusted gross income class or asset class of return (including special codes for returns, such as exempt organization, employee plans, gift and other special returns for which neither income or asset size is applicable)

+i. source of illegal income where applicable<sup>2</sup> (three digit code)

II. Characteristics of Suspected Offense

a. principal violation alleged (statutory code section)

b. period and type of tax involved (up to 11 entries)

c. tax reported and estimated criminal deficiency (exclusive of any civil penalties or civil tax adjustments) for each period and type (one for each entry in item II.b)

d. method of evasion (failure to file; understated income; false deductions; false allocation of income; false claims, credits or exemptions; false statements or document, other)

e. prosecution potential (excellent, good, unknown)

f. date of expiration of statute of limitations (earliest)

### III. Case Processing Stages

+a. source of referral (18 codes)

b. date information item (referral) received by Criminal Investigation

c. date case initiated

d. enforcement program involved (general taxpayer, organized crime; wagering and coin operated gambling devices; strike force; and other case of special interest to Department of Justice)

e. IRS district and region (part of case code)

f. agent assigned to investigation (name, social security number)

g. level of difficulty or, where unassigned, the group number of the case

h. cooperating agent assigned (name and grade of principal revenue agent from Audit Division assisting in case)

i. cumulative count of cooperating agent(s)' time after referral to CID (updated as time expended, or at time of case closure)

j. related case number (up to three entries) - prior investigation of same subject; concurrent investigation of same subject; any other investigation that materially affects this investigation or must be referred to for complete understanding of case (case number, but not reason for classifying as a related case is listed)

k. estimated completion date

l. whether prosecution recommended for each of the periods and types of tax listed under II.b

m. principal statute section recommended in special agent's report for prosecution

n. method of computation used in special agent's report (net worth; expenditures; bank deposits; specific item; other method)

o. regional or district counsel's number, office code, and number assigned to case

p. U.S. Attorney's name

+q. status code and date of status change (up to twenty status changes)

#### IV. Final Disposition

a. reason closed (32 codes)

b. for convictions:

1. statute section sentenced under
2. sentencing judge's name
3. judicial district code
4. sentence

- a. months to serve (incarceration time)
- b. months suspended (including concurrent time)
- c. months probation
- d. fines to pay (dollars)
- e. fines suspended



1For a case involving investigations by Grand Jury initiated by Justice, pseudo name used; pseudo name may also be assigned in "sensitive" cases.

2There are also six codes to use in cases of special interest to IRS, not involving illegal income.

+ Categories separately coded are listed in Tables D.1 through D.6 at Appendix D.

SOURCE: Internal Revenue Manual, Case Management and Time Reporting System Handbook, IRM 9570 (MT 9570-16, September 29, 1978).

(Appendix Table D.6) of the investigation through final prosecution. Where the case is terminated prior to court prosecution, the detailed reason for the termination is provided. For dispositions through court proceedings (either on plea or actual trial), the coding permits classification by the judge, judicial district and final sentence imposed (as well as the statute section the sentence was imposed under which can be compared with the violation alleged).

Program codes and special "tax administration codes" also highlight some of the reasons why the case was of interest to the IRS--including organized crime, wagering/coin-operated gambling device cases, strike force, Justice Department special interests, or special offender groups as unlawful tax return preparers, multiple tax return filers and tax protester. This wealth of information allows a wide range of useful statistics and analyses, from simple frequency distributions of cases processed and disposed of in any period of time, to an analysis of the contingencies involved in case outcome at each stage of processing.

### Project Histories

In addition to conducting case investigations, the Criminal Investigation Division also investigates "specific problem areas to determine if noncompliance situations exist." (IRM 9570, Sec. 310). Through such a "project" IRS investigates the degree of criminal noncompliance within an occupation, industry, geographic area, or specific economic activity. Projects may be initiated by the local, regional or national office, and projects begun locally may (if promising) be extended to the region or nation as a whole. Each project is entered into the computer file to be tracked to

completion. This current fiscal year, national office projects include:

- Project Haven/Decode
- Civil Fraud Penalty Project
- Large Case Project
- High-Level Drug Leaders Project
- Army/Air Force Exchange Service Project
- Tax Shelter Program Project<sup>3</sup>
- Wagering Project
- Korean Project
- Waterfront (Docks) Project
- Return Preparers Project
- Questionable Refund Program Project
- Arson-for-Profit Tax Enforcement Project

Other recently completed National Office Projects concerned violations dealing with: Trust Fund, FHA/HUD, and Political Campaign Contributions. Leads from projects typically result in the opening of specific case investigations on particular taxpayers, which then enter the computer system with their own separate number (cross-referenced to the original project number as the source for the investigation). A little over ten percent (977 out of 9481) of the case investigations initiated last year had their source in CID project investigations, with a similar proportion of the indictments (212 out of 1724) originating from this source.

#### Time Application

Time expended by district Criminal Investigation technical employees is input weekly on the IDRS terminals. For each technical employee, information is entered about his/her name, grade, group, and branch office. The number of hours spent on each case or project investigation, time spent on pre-investigations including information gathering, evaluation of referrals (information items) received from other sources are recorded. Time spent for non-investigation activities, i.e., providing protection on escort services, special assignments, training, supervision, administration, are also separately reported. Thus, it is possible to track time expenditures by particular cases/projects, individual investigators, offices or functional areas.

---

<sup>3</sup>This program covers "Oil and Gas Drilling Funds, Farm Operations, Real Estate, Motion Pictures, Coal, Records (Master Recordings), and other industry shelters used by promoters and investors." (MS 9570-10, Dec. 12, 1977)

## SUPPLEMENTAL SOURCES OF INFORMATION ON CRIMINAL PROCESSING AND CASES

The CM&TRS starts when a referral or lead becomes a "numbered" case.<sup>4</sup> While the system includes source codes for those referrals which are accepted for investigation, it contains no information on the much larger universe of leads or information items which are disposed of without investigation. Further, the system stops following a case after the criminal aspects of the investigation are closed. No information is included on what civil penalties or taxes are later assessed for the violation, or upon tax compliance by the taxpayer in subsequent years.<sup>5</sup>

At present, a separate reporting system, based in each of the ten Service Centers, tracks the receipt and disposal of information items (leads and referrals). However, there is at present no regular followup on a case after the criminal investigation is disposed of, though special one-time research studies are sometimes initiated to supplement the information available from either the information item file or the case management and time-processing system. An example of a recent large-scale research effort, the Planning Model Study, will be used to illustrate potential interlinkages between criminal investigation division information systems and those maintained by other Service divisions.

### Information Item and Referral Processing

The Criminal Investigation Division receives leads from many sources, both in and outside the agency. Most leads come from the other two main investigation divisions--Examination and Collection--or are generated from individual intelligence gathering, from formal CID Projects (previously described), or developed jointly by CID, Examination and Collection under a Joint Compliance Project

---

<sup>4</sup>In earlier periods, cases were accepted either for preliminary or full scale investigation. In 1972 this distinction was dropped and all referrals accepted for investigation are counted, that is numbered in the CM&TRS tracking system.

<sup>5</sup>Unless, of course, a violation results in the initiation of a new investigation, under a separate case number.

(JCP).<sup>6</sup> But the range of other sources is wide: tips from the public, or by informants on alleged criminal tax evasion,<sup>7</sup> from other agencies (Drug Enforcement Administration, Customs seizures, etc.) and from reports of currency transactions required from financial institutions under Title 31 of the Code (indicative of large cash transactions, both within the country and from the international transportation of currency or monetary instruments). Referrals can also come from other Service programs. Two principal ones conducted at IRS Service Centers involve computer-generated lists of duplicate returns, possible multiple filing or "refund mill" operations and unreported income from the wage and information document matching program. The distribution of information items received and disposed of by investigation and prosecution for fiscal years 1974 through fiscal year 1978 are shown in Table 6.2.

While the organization of the system has changed over the years<sup>8</sup> it is currently centralized for districts at each of the ten Service Centers. A central register is kept of each information item and its disposition; items are purged from the system after one to three years, depending upon the source and type of information covered. Among the information coded on each information item besides its source is information about the alleged violator (name, address, social security or employer identification number, occupational code and illegal activity code (if applicable) and the alleged offense (tax years involved, type of tax [where known])).

---

<sup>6</sup>JCP are "joint" by involving the district-wide resources of the Service to examine areas for pockets of noncompliance. While Examination, Collection and CID are most likely to be involved, other divisions including Taxpayer Services and the Appeals Division are sometimes included in a particular project.

<sup>7</sup>Members of the public can file a claim for reward on information furnished; payment of such claims (while discretionary) is authorized under Sec. 7623 of the IRC. Few file claims for reward, and fewer still receive any money. About 7,000 claims are annually filed, and about 1 in 15 receive rewards. In fiscal 1979, 439 informants received an average of \$641 each; in 1978, 435 persons received an average of \$795 each (Wall Street Journal, June 18, 1980).

<sup>8</sup>IRS Information and Retrieval System was subject to criticism during the Watergate era for both content of information items included, and its potential for misuse, leading to some changes.

	Percent (%) of Investigations Initiated in:						Percent (%) of Criminal Convictions in: <sup>a</sup>					
	1974	1975	1976	1977	1978	1979 (9 Mo.)	1974	1975	1976	1977	1978	1979 (9 Mo.)
Internal Revenue Service: Enforcement Divisions:												
Examination (civil audits)	36	37	39	36	32	30 <sup>b</sup>	33	32	28	32	33	34
Collection (delinquent accounts/returns)	15	17	15	16	16	16 <sup>b</sup>	16	20	18	21	19	18
Criminal Investigation (proactively developed leads)	31	29	23	26	29	34 <sup>b</sup>	37	36	39	31	33	33
SUBTOTAL	83 <sup>c</sup>	84 <sup>c</sup>	82 <sup>c</sup>	79 <sup>c</sup>	77	80	86	88	85	84	85	84
Other IRS offices/divisions:												
Service Centers (computer processing tax and information return)	1	2	2	6	7	8	1	1	2	3	3	4
All other	na	na	na	1	1	1	na	na	na	@	1	1
TOTAL IRS	85 <sup>d</sup>	87 <sup>d</sup>	85 <sup>d</sup>	85	85	89	87	89	87	87	89	89
Other Government Agencies	6	5	5	5	5	4	8	5	7	5	5	3
Public	9	9	11	9	9	7	5	6	6	7	4	7
Miscellaneous other	1	@	1	1	1	1	@	@	@	2	2	1
TOTAL % (N)	100 (8218)	100 (9268)	100 (9035)	100 (8901)	100 (9481)	100 (7432)	100 (1184)	100 (1202)	100 (1172)	100 (1476)	100 (1414)	100 (1210)

SOURCE: Unpublished internal computer tabulations of IRS Criminal Investigation (formerly Intelligence) Division.

Note: Percents may not total 100 because of rounding error.  
na is not available.  
@ is less than 0.5 percent.

<sup>a</sup>For 1974-1976, source is based upon defendants sentenced, rather than convicted in the given fiscal year.

<sup>b</sup>Beginning in 1979 CID developed leads originally referred to audit or collection for civil action, but returned to CID upon further information for criminal investigation are included in CID totals; prior to 1979 these cases were counted as an audit or collection referral.

<sup>c</sup>Cases from IRS Joint Compliance Program may involve the cooperation of all three enforcement division and are therefore included in the enforcement subtotal, but are not allocated across the separate divisions.

<sup>d</sup>Category "miscellaneous other" counted as an IRS source in 1974-1976.

Planning Model Study Civil Follow-up  
on Criminal Prosecutions

As part of a larger research effort undertaken by the CID, with assistance from the National Academy of Public Administration (NAPA), an attempt was made to obtain follow-up information on all taxpayers sentenced in 1972 for criminal tax violations. Using social security numbers obtained from manually maintained records of the Office of Chief Counsel and the former Intelligence Division, IRS extracted information on the taxpayer's subsequent tax compliance from IRS Master Files and from the Audit (now called Examination) Division's management information system. Because of the use of a common taxpayer I.D. (social security number for individuals, and employer identifying number for businesses and other organizations),<sup>9</sup> information on the same taxpayer contained on different computerized information systems can--theoretically at least--be merged into a consolidated taxpayer history reflecting all filing, assessment, payment, and enforcement actions for that taxpayer over a period of years. The Master File contains the basic record of information on returns filed by each taxpayer, assessments and payments received. A criminal prosecution, however, does not in itself alter a taxpayer's tax liability and therefore does not show up on the Master File. Case information extracted from the Audit Division's SCRIP management information system (now AIMS), permits obtaining information on any civil audit for those years, as well as any subsequent audits of the taxpayer involved. (While in the Master File all information on a taxpayer account is located together under the taxpayer's identifying number, this is not true for most other management information systems such as those maintained by the enforcement divisions of IRS. The Examination Division's system is case based; separate audits of the taxpayer for different time periods will appear under separate case numbers. All, however, have a common cross-reference to the taxpayer's identifying number.)

A description of the problems encountered in this research effort, however, points up some of the difficulties. First, inexplicably, social security numbers could not be located for 86 out of the 877 taxpayers sentenced in 1972; of the 791 remaining taxpayers no tax

---

<sup>9</sup>This was a result of legislation enacted in 1961, Public Law 87-397, requiring both individual and business taxpayers to include taxpayer identifying numbers on their returns. This was enacted as a result of the computerization of IRS return processing to enable the establishment of master files, containing all pertinent filing information on a taxpayer in one case record.

entity was found on the Master File for 85. A additional 27 social security numbers appeared to be invalid. These together eliminated 22.6% of the taxpayers whose case histories were sought. (Planning Model Study Interim Report) Of those cases where some account information was found, "many years analyzed contained no tax data, because of its scheduled removal." Thus, much of the potential of the case history system is lost because master files are periodically purged of old account data.

Additional difficulties were encountered in attempts to match audit information to these criminal cases.<sup>10</sup> Beyond the absence of social security numbers precluding a match, an additional "30 percent of the cases could not be matched to audit files" (Appendix 4A, Report by a Panel of the National Academy of Public Administration, September 1978). A number of these were cases which were still open in Audit, while others had not been referred to Audit (but had presumably gone to Collection as in failure to file cases). Differences in the coding schemes used also prevented a "relative comparison of Intelligence to Audit" data (internal agency memo, August 31, 1977, from Chief, Program Branch to Chief, Coordination and Design Branch).

A more detailed comparison was made of a four percent sample (every twenty-fifth match of audit and intelligence information system files), representing 184 taxpayers.<sup>11</sup> Substantial differences in the figures on tax deficiencies were found between the two record systems. For example, for those cases involving a recommendation for criminal prosecution by CID (n=48) the amount of deficiencies in tax and penalties contained in the special agent's report were three times (3.8 million versus 1.3 million) the figure reflected in the revenue agent's report covering the same taxpayer and tax years<sup>12</sup>.

Several reasons seem to account for these different tax deficiency figures. Criminal figures turned out to be much higher than later civil audit recommendations. According to CID's analysis at least, data on civil audits contained many errors of omission, thus underestimating true amounts. Unfortunately, the study did not attempt to compare criminal and civil audit recommendation figures with actual (later)

---

<sup>10</sup>The base here was fiscal 1975 criminal investigation cases.

<sup>11</sup>This, however, would appear to be a sample drawn from only  $25 \times 184 = 4,416$  out of 8,713 closings in FY 75.

<sup>12</sup>CM&TRS and SCRIP Recommended Assessments for Sample Cases, from unpublished report, "Planning Model Study CM&TRS/SCRIP Sample Data analyses," undated.

assessments reflected on the Master file. Often audit recommendations overstate later assessments, reflecting sizable reductions which occur during administrative or court appeals. (See earlier discussion in Chapter III, and Figure 3.7.)

These limited results point up the practical difficulties of merging data from several independent information systems even with a common I.D. They also serve to highlight problems of data reliability, pinpointing data discrepancies between figures entered in different systems.<sup>13</sup>

#### Earlier Criminal Investigation Information Systems

Since fiscal 1964, the criminal investigation division has had a machine-processed information system, though for ten years after that date it maintained a dual manual reporting system. In fiscal 1974 it converted to a more elaborate computer tracking system, somewhat similar to its current system but with less detail. It was this system that was expanded and converted into a direct terminal entry, on-line system in October of 1978.

Major changes in the codes and categories used occurred in fiscal 1974 and in fiscal 1978. Prior to fiscal 1979, for example, only a two-digit occupational code was used, and no information on the income class of the taxpayer was recorded. Prior to 1973, both fewer items and fewer categories within items were recorded, and the system was not designed to retain changes in status, but only to reflect current case status. In addition, the manual reporting system was retained because, as current IRS officials explained, there was some question about the reliability and accuracy of the computer-generated reports.

A variety of statistical reports (both machine- and hand-compiled) have been retained which would permit, if resources were available, construction of more detailed time series back to July 1961, with additional information available largely for the four-year period 1954 to 1958

---

<sup>13</sup>The National Academy of Public Administration included among its recommendations in September, 1978: "That IRS reconcile inconsistencies between the management information systems of Audit and Intelligence" (now renamed Examination and Criminal Investigation Divisions), noting "massive inconsistencies between these two systems were observed" Report by a Panel of the National Academy of Public Administration, Planning and Analysis Concerning the Intelligence Function of the Internal Revenue Service), pp. 14-15.



(which I located in twenty boxes at the Federal Records Center in Suitland, Maryland.)<sup>14</sup> Thus, it would be possible to track in more detail statistics on the types of investigations and prosecutions--including separately those in the general taxpayer program and the special enforcement program (which has been called over the years the racketeer program, organized crime program, wagering program, narcotics drive). Sources of investigations, prosecutions, and sanctions for each IRS district and region, as well as the nation as a whole, could similarly be compiled for this period of time.

#### STRENGTHS AND WEAKNESSES OF THE CRIMINAL INVESTIGATIVE DIVISION INFORMATION SYSTEM

Among the common information systems within governmental agencies, most typical are those that report information at one point in time from data assembled on a pre-aggregated rather than a case basis. Few approach the ideal--collecting case information over time. As one moves from collecting aggregated to case information, and from recording information at one to multiple points in time (see Table 6.3), the type and number of questions that can be answered by the data vastly expand.

TABLE 6.3  
TYPES OF INFORMATION SYSTEMS

Unit		
Time Period	Case	Aggregate of Cases
one time	1. Cross-sect.	2. cross-sect. aggregates
over time	4. case history	3. cohort history

<sup>14</sup>Present CID plans, however, are to dispose of these records in the near future; they survived only because their existence had been forgotten until I uncovered their location.

The management information system of the IRS Criminal Investigation Division (CID) approaches the ideal--that is, collecting case history over time. This case history structure, coupled with the detailed range of data items collected on each case, make this data system particularly useful for the analysis of white collar crime enforcement. Further, the availability of a common taxpayer identification number potentially allows matching of cases: (a) within IRS criminal information system files, or (b) within other IRS management information files (e.g., Master Files, Examination and Collection Division files).

While the CID case history informational system compares very favorably with many data systems on crime enforcement, any data system has its limitations. Three limitations of the CID system will be noted here. These concern limits on:

- (1) How cases can be easily grouped for analysis;
- (2) The reliability of recorded data;
- (3) Which "cases" and stages in a case history are included in the system.

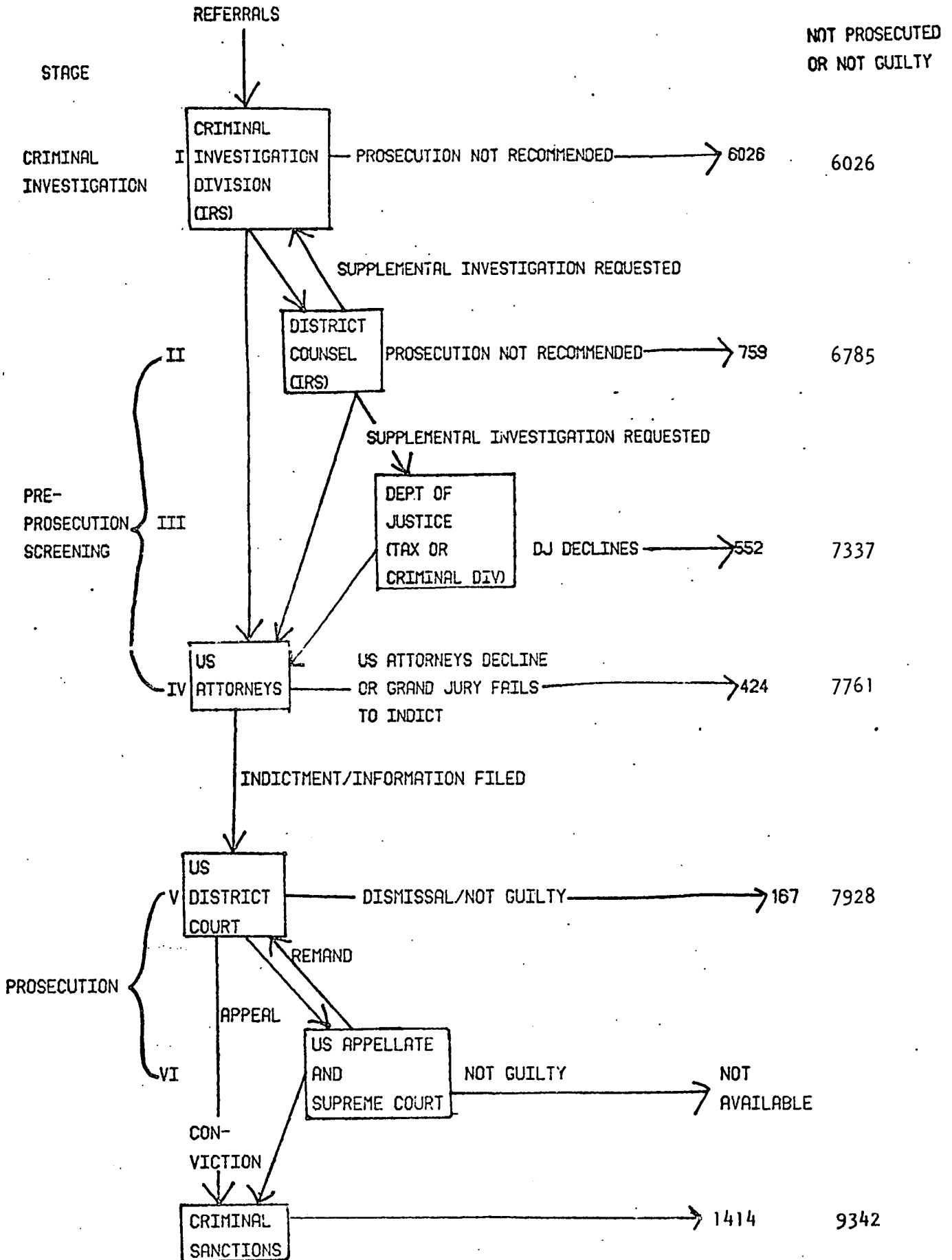
#### Case History Analysis: Limitations in How Cases can Be Easily Grouped

Once a criminal case investigation is initiated, the CID data base follows the case through to its final (criminal) disposition. A single case history may take a case through one or several stages, as the flow chart in Figure 6.1 shows. Ideally, we would like to follow any cohort of cases initiated during a period through each processing stage--from investigation to conviction or other final disposition. Stated another way, starting with the total number of investigations initiated in some time period, we would like to know the number of cases represented by each arrow shown on Figure 6.1. We might also like to know, in addition to case counts, something about the characteristics of the cases included at each stage.

Presently, available tabulations do not permit one to follow a cohort of cases through to final disposition. While such information could be produced, the present system for purging the current files of cases terminated during the preceding fiscal year would either have to be altered, or some restructuring of the historical and current data files would be required before such cohort analysis could be readily produced.

Figure 6.1

## CRIMINAL TAX CASES: PROCESSING STAGES



FISCAL 1978  
TOTAL DISPOSITIONS  
N-9342

One can, however, construct a 'synthetic' cohort,-based upon disposition rather than initiation date,-from statistics now compiled. This has been done in Figure 6.2, and the results analyzed in Figure 6.3 and Table 6.4. The cohort is comprised of the number of cases (shown in the right-hand column of Figure 6.1) exiting the system at each of the stages from initial criminal investigation (Stage I), through pre-prosecution screening (Stages II-IV) and ultimate court prosecution (Stages V-VI). The cohort is "synthetic" because cases pass through a given stage at different points in time. To the extent that changes have occurred in the mix of cases initiated and/or the case processing criteria and standards, their effects are confounded.

Nonetheless, given some stability to the system<sup>15</sup> the synthetic cohort does provide some information about relative case flows and outcomes. For example, for every criminal investigation initiated, only about 15 out of 100 result in a criminal conviction. Where these cases drop out of the system can be further pinpointed (see Figure 6.3 and Table 6.4). Only one-third of the investigations results in a recommendation for criminal prosecution by the Criminal Investigation Division. Of those recommended by CID, pre-prosecution screening by IRS district counsel offices, by the Department of Justice, and by the U.S. Attorneys assigned to prosecute the case reduce the number of cases further. Thus, even on those for which the CID recommends criminal prosecution, only a little more than 4 out of 10 actually result in a conviction.

Even these figures, however, may be somewhat unreliable. As discussed in the following section, analysis of the output tabulations shows a number of data discrepancies. A small, but significant number of cases appear 'lost' or are otherwise unaccounted for in recorded final disposition counts.<sup>16</sup>

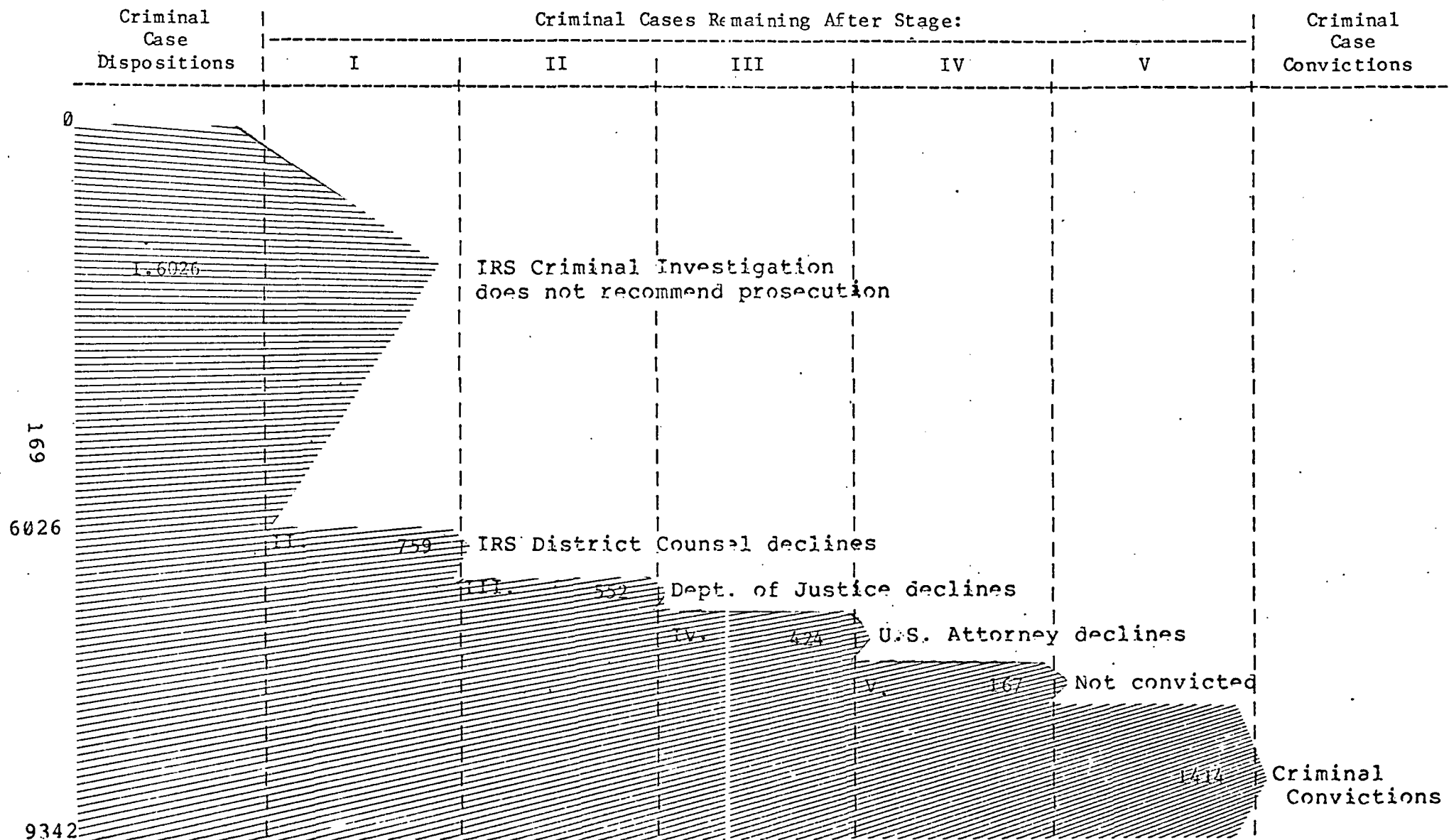
### Indicators of Data Reliability

For any given year, the status codes and compilations prepared allow one to examine case flows within any single stage--investigation (Stage I), district counsel screening

---

<sup>15</sup>Unfortunately except for stage I, data are not available prior to FY 77. Thus it is difficult to assess how stable each case flow has been.

<sup>16</sup> For the figures shown in Figure 6.2, Figure 6.3 and Table 6.4, these 'lost' cases (not passing to a higher stage) are assumed to be a non-conviction disposition in the disposition counts shown.



Source: internal management case tables  
I.R.S. Criminal Inv. Div.

Notes: dispositions decline all cases not reaching next stage, net of changes in inventory.

Figure 6.3

# CRIMINAL INVESTIGATION CASES REMAINING AFTER STAGE:

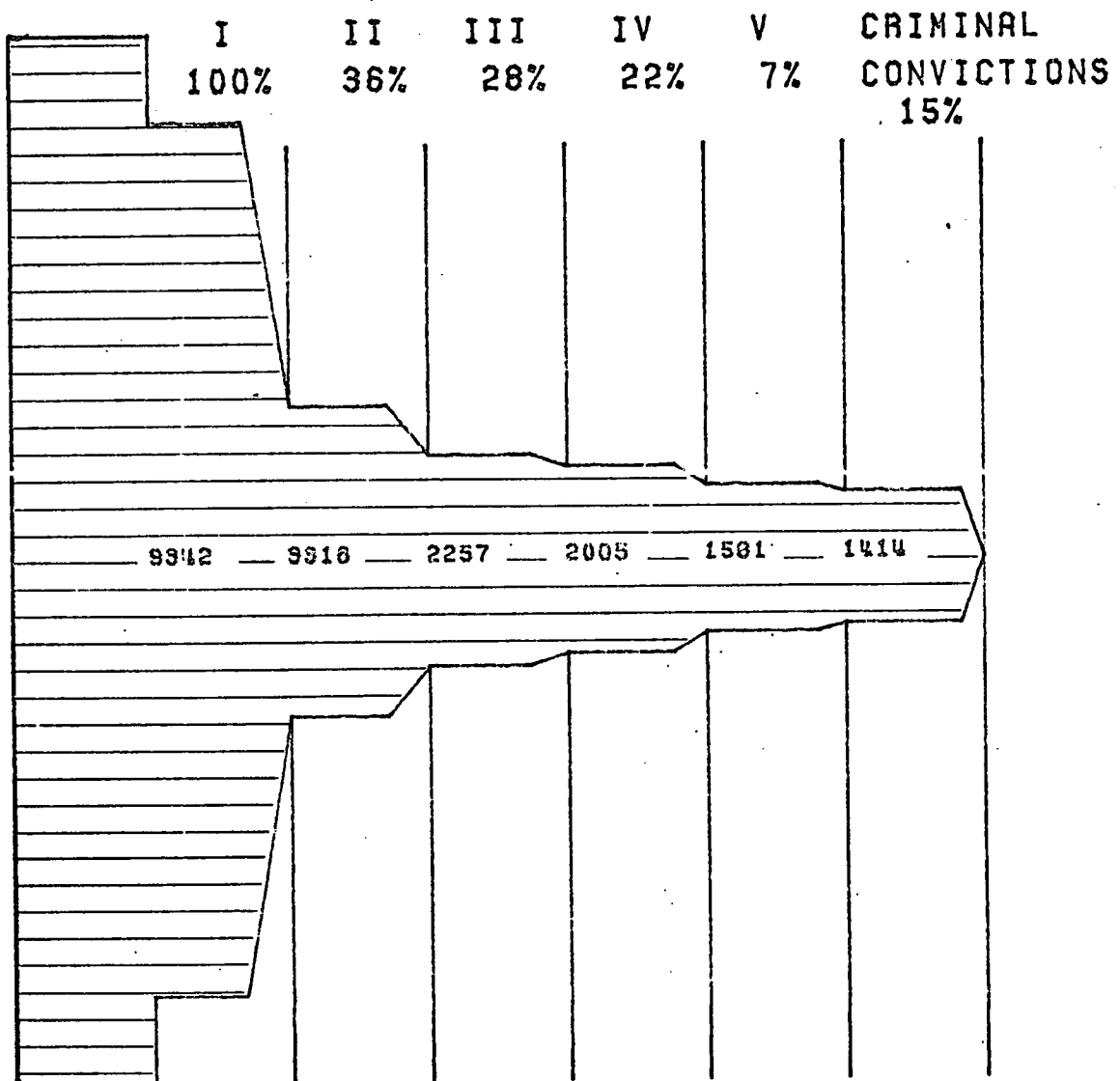


TABLE 6.4

OUTCOME BY STAGE IN PROCESSING CRIMINAL TAX CASES  
FISCAL 1978

Stage <sup>+</sup>	Synthetic Cohort <sup>a</sup>						Dispositions at Each Stage <sup>b</sup>		
	Cases Reaching Each Stage (1)	Percent of Final Dispositions Dropping Out at Each Stage					Total for Stage (7)	Cases Dropping Out at Each Stage	
		I Base: 9342 (2)	II Base: 3316 (3)	III Base: 2557 (4)	IV Base: 2005 (5)	V Base: 1581 (6)		N (8)	% of Total [(8)/(7)] (9)
I	9342 <sup>a</sup>	65	-	-	-	-	9465	6026	64
II	3316	8	23	-	-	-	2682	759 <sup>c</sup>	28
III	2557	6	17	21	-	-	2161	552	26
IV	2005	5	13	11	21	-	2148	424	20
V	1581	2	5	7	8	11	1581	167	11
Conviction	1414	-	-	-	-	-	-	-	-
Percent Dropping Out Before Conviction		85	57	46	30	11			
Percent Conviction		15	43	53	70	89			

SOURCE: Unpublished internal computer tabulations of IRS Criminal Investigation (formerly Intelligence) Division.

Note: Percents may not add to 100 because of rounding.

+ Definition of stages: I (IRS criminal investigation), II (IRS District Counsel Screening), III (Department of Justice, IV (US Attorney), V (Court actions).

<sup>a</sup>Synthetic cohort composed of all cases finally disposed of during Fiscal 1978 (see Figure 6.1).

<sup>b</sup>The sum of dispositions at each stage includes intermediary dispositions (transfer to next stage with prosecution recommendation, etc.), and thus exceeds final dispositions. Further, a case need not pass through each stage, but may be referral directing to the US Attorney from State I or II as well as from III. Discrepancies noted in Table 6.5 are included in figures.

<sup>c</sup>Includes the number of cases forwarded to the Department of Justice with nonprosecution or nonconcurrence in prosecution recommendations.

(Stage II), Department of Justice screening (Stage III), U.S. Attorney screening, (Stage IV), and court prosecution (Stage V).<sup>17</sup> Input, output, and inventory changes at any stage should balance. This provides one method of checking for the reliability of case counts. That is:

$$\text{Total case dispositions}_i = \text{Total cases initiated}_i - (\text{ending inventory} - \text{beginning inventory})_i$$

for any particular processing stage (I through V) on Figure 6.2 and 6.3 and Table 6.4. Results from this cross-check are shown in Table 6.5 for fiscal 1978 and the first nine months of fiscal 1979 for stages II-V and back through fiscal 1975 for the initial criminal investigation stage (Stage I). Case dispositions, cases initiated and beginning and ending inventories are shown in columns (1) through (4) in Table 6.5. Resulting discrepancies in case counts are shown in Column 6.

While some discrepancies occurred at every stage, the absolute size of the discrepancy averaged only about one percent for case dispositions by the Criminal Investigation Division, but increased to nearly 10 percent on average for IRS district counsel and Department of Justice dispositions, and became over half of the average dispositions for U.S. Attorney pre-prosecution screening dispositions. (IRS data were not available from which discrepancy data could be computed at the court prosecution stage.) This no doubt reflects the increasing problem of obtaining accurate status updates after cases leave the CID. However, were lack of updates the only problem, no discrepancies would occur--the problem would simply be increasing inventories at prior stages, when case dispositions fail to be entered. Thus, the problem appears more serious than one which could be rectified by more careful attention to case history follow-up.

These discrepancies also make even the synthetic cohort analysis approach problematic, since how cases which 'disappear' from the system are handled greatly affects final dispositions at each stage. (See footnotes to Table 6.5 for procedures used for estimates given here).

For stage II (IRS District Counsel Screening), statistics from CID on cases received and disposed of were compared with statistics compiled by IRS District Counsel offices. These are shown in Table 6.6. They show a larger number of case receipts and disposals reported by district

---

<sup>17</sup>With certain exceptions, no inventory data were compiled at the last two stages.



TABLE 6.5

## CRIMINAL TAX CASES INITIATED, DISPOSED OF, AND IN INVENTORY: DATA DISCREPANCIES IN CASE FLOWS

Fiscal Year	Case Dispositions (1)	Cases Initiated (2)	Inventory			Discrepancy [(2) - (1) - (5)]	
			Beg. (3)	End (4)	Ch. [ (4) - (3) ] (5)	N (6)	% of (1) (7)
Stage I: IRS Criminal Investigation							
1975	8731 <sup>a</sup>	9268 <sup>b</sup>	5894 <sup>c</sup>	6315	421	116	1.3
1976	8797	9035 <sup>b</sup>	6315	6470	155	83	0.9
1977	8867	8901	6470	6800	330	-296	-3.3
1978	9408	9481	6800	6816	16	57	0.6
1979 (9 months)	6704	7432	6816	7463	647	45	0.7
Stage II: IRS District Counsel Screening							
1978	2414	2958	1914	2190	276 <sup>d</sup>	268	11.1
1979 (9 months)	2125	1838	2190	1740	-450 <sup>d</sup>	163	7.7
Stage III: Department of Justice							
1978	1945	1908	1410	1157	-253	216	11.1
1979 (9 months)	1364	1536	1157	1261	104	68	5.0
Stage IV: U.S. Attorney							
1978	1993	2335	2494	3275 <sup>e</sup>	781	-439	-22.0
1979 (9 months)	1787	1747	3275 <sup>e</sup>	1745	-1530	1490	83.4
Stage V: Court Actions							
1978	1581	1724	n.a.	n.a.	n.a.	n.a.	n.a.
1979 (9 months)	1366	1450	n.a.	n.a.	n.a.	n.a.	n.a.

SOURCE: Unpublished internal computer tabulations, IRS Criminal Investigation (formerly Intelligence) Division.

<sup>a</sup>Includes CID hand written adjustment of + 3 cases to tabulated figures..

<sup>b</sup>Includes CID hand adjustment of + 4 cases on complement table: "Summary of Case Actions" for respective fiscal year.

<sup>c</sup>Hand written notation on output table, "Summary of Case Actions" for case inventory at end of Fiscal Year 1974 shows actual inventory at 5858. If this rather than tabulated figure is used, inventory change plus discrepancy would be 36 cases greater, giving a discrepancy of 152 or 1.7%.

<sup>d</sup>Inventory figures tabulated appear to exclude CID protests of proposed District Counsel memoranda against prosecution. Figures above add the number of CID protests in current studies to tabulated inventory figures. This results in a net change in inventory of + 9 (1978); -5 (1979).

<sup>e</sup>This inventory figure appears out of line; however, if the FY closing inventory is adjusted to opening inventory size, there would still be approximately 1,000 case discrepancies in FY 79 (9 months data).

n.a not available.

counsel offices, than show up in CID data.<sup>18</sup> Comparisons of the two aggregated case counts, however, do not resolve the question of where the problem or problems reside.

Comparisons with data in the defendant-based U.S. Attorney data for referral from the Internal Revenue Service also reveal discrepancies between information in the two systems once the case was referred to the U.S. Attorney for prosecution. Again, without a case by case examination it is difficult to pinpoint what accounts for these discrepancies. Some no doubt reflect differences in how "defendants" or "matters" are counted, the particular cases included, and time periods compared. Confusingly, agency codes for recording referral source in the U.S. Attorney data system are based upon a pre-1952 IRS organizational structure which has not existed for 25 years. The U.S. Attorney agency codes for IRS currently are:

Internal Revenue Service Source Codes

421	Income Tax Unit
423	Alcohol Tax Unit
425	Other Tax Unit

Further complicating the matter is that enforcement of alcohol, tobacco and firearms statutes was transferred out of IRS in 1972. The Bureau of Alcohol, Tobacco and Firearms to whom these functions were transferred has no separate agency source code in the U.S. Attorney system. For the 1975 data examined, most alcohol and weapons offenses appear to be coded under "Agency Code 423." But, "Agency Code 425" also includes as its second most frequent offense category weapons violations for which IRS now has no enforcement jurisdiction. Thus, the discrepancies in all probability reflect a variety of shortcomings--in part from CID data unreliability, in part from unreliability in U.S. Attorney data.

Discrepancies in the figures between the two systems make a real difference in possible conclusions. IRS data on cases referred to the U.S. Attorney's Office for criminal prosecution show that an indictment or information was filed in 86 to 87 percent. That is, there was a rate of declination of around 13 to 14 percent. These rates, as shown in Table 6.7, have remained virtually constant over the last four years. In contrast, data compiled from special runs from the U.S. Attorneys Offices' Docket and Reporting

---

<sup>18</sup>These two data counts, according to IRS should be compatible.

TABLE 6.6

## RECOMMENDATIONS FOR CRIMINAL PROSECUTION: IRS DISTRICT COUNSEL CASE REVIEW

Criminal Cases	Statistics Compiled by <sup>a</sup>							
	IRS Criminal Investigation Division (CID)		Office of IRS Chief Counsel (CC)		Difference (%) Between CC and CID Figures			
	FY 1977	FY 1978	FY 1977	FY 1978	FY 1977 (N) % of CID		FY 1978 (N) % of CID	
Receipts from CID	3010	2958	3520	3527	510	17	569	19
Disposals	2425	2414	2803	2801	378	16	387	16

SOURCE: Unpublished internal computer tabulations of IRS Criminal Investigation Division, and Caseload Statistics Report of Planning, Analysis and Operations Branch of the Office of Chief Counsel Administrative Services Division.

<sup>a</sup>Up until Fiscal 1977, statistics compiled by IRS Chief Counsel Office on criminal case processing were incompatible with CID statistics, and it was CID's figures which were used to report Chief Counsel activity for the Annual Report of The Commissioner of Internal Revenue. The Chief Counsel's reporting system was revised beginning in Fiscal 1977 so as to provide compatible figures.

System, based on all criminal referrals received in fiscal 1975, show that for only 74 percent of the defendants (77 percent of the cases) was an indictment/information filed (see Table 6.7). The apparent declination rate is thus nearly twice as high as that recorded by IRS.<sup>19</sup> While the N's shown in Table 6.7 differ in part because of differences in how the period of time covered is calculated,<sup>20</sup> the U.S. Attorney system shows not fewer but more indictments filed per year. The apparent lower filing rate results from the larger number of cases U.S. attorneys record receiving than are shown in IRS data.

A comparison between IRS criminal case statistics and those from the U.S. Office of the Court on the proportion of those convicted receiving prison time, noted earlier in Chapter I, again showed significant discrepancies in rates. In the comparison (see earlier discussion in Chapter I, and Tables 1.3 and 1.4), IRS showed higher rates of prison sentences than the U.S. Office of the Courts. Again, a detailed examination of the data on a case by case basis would be required to establish the reasons for these differences and the extent to which they reflect differences in definition, rather than error in the data recorded on one or both systems.

The problem revealed in the Planning Model Study's attempt to merge data from other IRS information systems with the CID criminal history files suggest several other potential areas of unreliability. Chief among these is the data entered on size of tax deficiency. This measure is important for: (a) classifying the seriousness or "harm" implicit in the violation; (b) in calculating the "true" income class of the taxpayer; and (c) indexing the relative size of the case. As noted earlier, the problems are twofold. First, there are defects between audit and CID records for tax deficiencies and second, both audit and CID figures can materially depart from the amount of the tax deficiency finally determined and assessed. Thus, these data provide unreliable guides to dollar amounts.

---

<sup>19</sup>Further, the U.S. Attorney's data base does not include "immediate declinations" in this count. These are referrals which are rejected almost immediately, and with expenditure of an hour or less of an attorney's time such cases never enter their system. While few tax cases may fall in this category, their exclusion would lead to an understatement of total agencies referrals declined.

<sup>20</sup>IRS data are based on cases disposed of during the years shown; U.S. Attorney data are based upon final disposition of the cohort of cases received in 1975.

TABLE 6  
REFERRALS OF CRIMINAL CASES TO US ATTORNEYS BY IRS

Comparison of Rates of Criminal Tax Prosecution Shown in IRS & US Attorney Data Bases

Referrals Received for Criminal Prosecution in US Attorney Offices	IRS Data <sup>a</sup> on US Attorney Activity				US Attorney Data <sup>b</sup> (Disposals of 1975 Receipts)	
	1975	1976	1977	1978	Unit = Case	Unit = Defendant
Receipts	n.a	n.a	1921 <sup>c</sup>	2335 <sup>c</sup>	1843	2116
Dispositions						
Indictment/information filed	1355	1331	1636	1724	1422	1570
Prosecution declined	202	216	243	258	421 <sup>d</sup>	546 <sup>d</sup>
Total Disposition	1557	1547	1879	1982	1843 <sup>d</sup>	1570 <sup>d</sup>
Percent Prosecuted	87%	86%	87%	87%	77%	74%

SOURCE: IRS figure from unpublished, internal computer tabulation, IRS Investigation Division; US Attorney figures from special runs prepared on USA "Docket and Reporting System" computerized files, tracking dispositions through the end of Fiscal 1978 of all "matters" received by US Attorney offices during Fiscal 1975.

<sup>a</sup>A separate case is usually started for each prospective defendant. Where both income tax and significant other taxes are involved for the same taxpayer, however, two separate case files are started. (For further description of the definition of a case, see page .) Thus figures shown may involve some double-counting.

<sup>b</sup>Includes all matters classified under "Agency 421" and "Agency 425" codes. See text, page .

<sup>c</sup>Includes direct referrals from IRS district Intelligence (Criminal Investigation) Division, IRS Regional/District Counsel Offices, and the US Department of Justice.

<sup>d</sup>Treats as declinations a few cases received in Fiscal 1975 on which no information or indictment was filed by the end of Fiscal 1978.

n.a not available.

Information Not Compiled:  
Cases and Stages Not Covered

As previously noted, chief among its limitations for deriving a sourcebook of statistics on white-collar crime involving tax violations are limits in the current IRS Criminal Investigation (CM&TRS) data included in the information system. These limitations concern both cases (taxpayers) which are excluded from the CM&TRS system, as well as limits to the data on the cases which are covered. Three types of data not currently compiled would be particularly useful. First, it would be valuable to know for the cases referred to, but rejected by CID for criminal investigation, the frequency of use of civil penalties. Of particular interest for white-collar crime is the application of civil fraud penalties because the offense is closely related to criminal fraud (see Appendix B).

Second, and equally important, are data on the civil enforcement action taken on cases once criminal aspects of the case are completed. This would include the use of civil penalties as well as figures on final assessments so that the amount of tax "evaded" could be more accurately ascertained. Information on taxpayer compliance, subsequent to a criminal conviction, would also be desirable.

Finally, there is relatively limited information about the source of many investigations.<sup>21</sup> For example, little or no information on an audit or collection referral as to how the case came to audit or collection's attention.<sup>22</sup> This added information would greatly add to our knowledge of the process by which criminal violations are detected.

As previously mentioned, some of the limitations could be rectified, at least in part, by computer matching of taxpayer information from CID files with that of other IRS internal management systems, utilizing the taxpayer's I.D. For example, at present the C.I. Division can place a

---

<sup>21</sup>TCMP case referrals are separately coded as to source, and since October 1978 audit and collection referrals which originated as a lead furnished by the Criminal Investigation Division are supposed to be coded as separate source categories.

<sup>22</sup>Thus, one cannot tell from CID records whether an tax return was originally selected for examination as a result of a high DIF score, special interest expressed by the Department of Justice in the case, a special district project within the Examination Division, or any one of a myriad of other reasons which initiate selection of a return for civil examination.

"freeze" through entering a specified code on the Master File of a taxpayer under investigation. This alerts IRS personnel to the potential criminal violation involved, and prevents other action being taken (the solicitation of payments or returns not filed) which might jeopardize criminal prosecution of the case. Such a freeze is removed after the criminal aspects of the case are completed. It would appear to be relatively easy when removing this "freeze," to add a special code when conviction results. Then at the end of each processing year for a followup period, an extract of all transactions entered on these taxpayer accounts could be copied off the Master File and forwarded to the IRS Data Center for merging with its closed case criminal investigation files.

In the case of both the Examination and Collection Division information systems,<sup>23</sup> a refinement of case source codes to more clearly distinguish those involving a criminal investigation would permit extraction of follow-up information on the civil enforcement actions, including staffing and investigation time involved. These data could then be later merged with CID closed case files.<sup>24</sup>

While this suggests some of the potential for supplementing the current data base, these merging systems are neither in place nor planned. Nor are cost estimates readily available on what such an effort would entail.

---

<sup>23</sup>The Collection Division has recently been undergoing conversion to a new computer system. Unanticipated difficulties encountered during the changeover have created severe data problems, so that reliable data for fiscal year 1978 and 1979 are almost nonexistent. Presumably, these problems will be solved, so that reliable data for years subsequent to fiscal 1979 could be extracted.

<sup>24</sup>Civil appeals, either administrative or to court in civil audits, are not presently covered within the Examination Division management information system. Since the final dollar assessments would appear upon Master File extracts, this omission would not seem critical. A more substantial problem would be in those cases where collection or civil audits were disposed of prior to criminal resolution of the case, and thus would not be included in information extracted under the proposal. Statistics on how frequently this occurs are not currently available. Since present IRS policies call for the suspension of civil enforcement efforts whenever they would conflict with criminal aspects of a case, presumably these would be infrequent occurrences.

Absent an effort to create a single, merged data file on tax enforcement actions,<sup>25</sup> relatively small changes in current systems could provide a useful supplement to information compiled by the C.I. Division. First, for the last two fiscal years a strip-off of the Master Files at each Service Center has been obtained to count the number, type, and dollars involved in civil penalty assessments.<sup>26</sup> At present only very aggregated national data are compiled; no information is available on which assessments involved a taxpayer criminally investigated, prosecuted, or convicted. Nor is any information available on other characteristics of the taxpayer, or the source of the enforcement action. Some of this information, particularly on taxpayer characteristics, district office and type of enforcement activity (issuance of TDI, TDA, etc.) is already on the Master File. Such items could probably be added to the present extract without great additional expense. This further detail would provide a very useful supplement to information available from CID.

Finally, the addition of new (or more compatible) source codes to the reporting systems on the Examination and Collection Divisions could flag cases referred to, or received from, the Criminal Investigation Division. Such a set of source codes might include the referral outcome--referral rejected, investigation closed without prosecution recommendation, prosecution recommended but no conviction, conviction obtained. This would permit aggregate tabulations, at least, of followup information on civil enforcement actions taken. In the case of the Examination Division, a two-digit code is currently used to distinguish source, and tabulations are currently prepared by these categories. These source codes, however, are not wholly compatible with those of the Criminal Investigation Division. A simple restructuring of this coding system would permit the present tabulations to provide more useful information on white-collar crime enforcement efforts.

---

<sup>25</sup>Any effort at creating a large merged data system must, of course, consider privacy and other constitutional issues in the definition of case followed and the type and period of information retained. The release of data in identifiable form outside of IRS is, however, already restricted under IRC 6103.

<sup>26</sup> Prior to this effort, the last published annual figures on penalties ceased being compiled in 1919.



APPENDIX A:

CRIMINAL AND CIVIL PENALTY STATUTES WITHIN THE  
JURISDICTION BY THE INTERNAL REVENUE SERVICE



TABLE A. 1

CRIMINAL PENALTY STATUTES ENFORCED  
BY THE INTERNAL REVENUE SERVICE<sup>1</sup>

Statute Section	Description of Offense	Penalty	
		Dollars	Years
Internal Revenue Code of 1954 (Title 26 - United States Code)			
7201	Willful attempt to evade or defeat any tax	10,000	5
7202	Willful failure to collect or pay over tax	10,000	5
7203	Willful failure to file any return, keep required records, supply any information, or pay required estimated tax or tax	10,000	1
7204	Willful failure to furnish withholding statement to employees, or willfully furnishes false or fraudulent statement (applies to employers)	1,000	1
7205	Willfully supplies false or fraudulent information or willfully fails to supply information to employer	500	1

<sup>1</sup>Listing does not include penalties by way of forfeitures of goods in kind, items denoted in the statute as "taxes" though construed by the courts to be a penalty provision (or imposed with that intent), or penalty provisions related solely to offenses with respect to stamps, white phosphorous matches, liquor or tobacco provisions, petroleum products, filled cheese, oleomargarine or unadulterated margarine, cotton futures, collection of foreign items. Also not included are many procedural sections related to the assessment and collection of taxes which the agency may invoke that in some sense "penalize" the taxpayer but are not in themselves penalty provisions.

Statute Section	Description of Offense	Penalty	
		Dollars	Years
7206	Willfully makes any false return or other document declared under penalty of perjury  or, Willfully aids, assists, or advises the making of a false return or document  or, Simulates or falsely or fraudulently executes any bond or other document: or advises, aids or connives in  or, Removes or conceals goods or property with intent to evade or defeat the assessment or collection of tax  or, Willfully conceals property or withholds, falsifies or destroys (in connection with any offer of compromise or closing agreement)	5,000	3
7207	Willfully delivers any false list, return, account statement or other document	1,000	1
7210	Neglects to appear or produce records in response to IRS administrative summons	1,000	1
7212(a)	Attempts (corruptly or by force or threat of force, including any threatening letter or communication) to intimidate or impede any officer or the due administration of internal revenue laws <sup>1</sup>	5,000	3

<sup>1</sup>Threats only, \$3,000, 1 year.

Statute Section	Description of Offense	Penalty	
		Dollars	Years
7212(b)	Forcible rescue or attempt to rescue property seized under the internal revenue laws <sup>1</sup>	500	2
7213	Unauthorized disclosure of return information by federal, state or local (child support enforcement) employee or former employee or contractor  or, Print or publish return information after being disclosed to such person in an authorized manner  or, Solicits and receives in exchange for material value return information  or, Unauthorized disclosure of return information by shareholder of corporation	5,000	5
7214(a)	Unlawful acts by revenue officers or other employee (extortion, knowingly demands greater sums than authorized by law, fails to report information on violation of any revenue law, conspires to defraud U.S., accepts anything of value for tax adjustment or settlement) <sup>2</sup>	10,000	5
7214(b)	Having interest, directly or indirectly, in manufacturing of tobacco products or production of liquor when an internal revenue employee <sup>2</sup>	5,000	

<sup>1</sup>Or double property's value.

<sup>2</sup>Dismissal from office.

Statute Section	Description of Offense	Penalty	
		Dollars	Years
7215	Failure to comply with separate accounting and accelerated deposit of taxes withheld after notice (lack of funds no bar to penalty)	5,000	1
7262	Failure to pay special tax relating to wagering	5,000	

(Title 18 - United States Code)

2	Extension of punishment for any offense against the U.S. to one who aids, abets or counsels such violation, same as principal <sup>1</sup>		
3	Assists offenders to hinder or prevent apprehension or punishment is an accessory after the fact <sup>2</sup>		
4	Failure to report knowledge of a felony (misprison of felony)	500	3
111	Forcibly assaults, resists, interferes with (among others) internal revenue employee <sup>3</sup>	5,000	3
201	Offers thing of value to government official with intent to influence his action <sup>4</sup>		3
284	Disqualification of former employees from acting for another in matters connected with former duties for two years	10,000	1

<sup>1</sup>Equal to prescribed penalty.

<sup>2</sup>One-half prescribed penalty.

<sup>3</sup>If weapon involved \$10,000, 10 years.

<sup>4</sup>Three times what is offered.

Statute Section	Description of Offense	Penalty	
		Dollars	Years
285	Taking or using without authority papers relating to claims against the United States	5,000	5
286	Conspiracy to defraud the government through fictitious or fraudulent claim	10,000	5
287	Knowingly make fictitious or fraudulent claim against the United States	10,000	5
371	Conspiracy to commit offense or to defraud the United States <sup>1</sup>	10,000	5
372	Conspiracy to impede or injure any officer of the United States	5,000	6
494	Makes, publishes or transmits a false or fraudulent writing for purpose or defrauding the United States	1,000	10
495	Falsely makes, alters, publishes, transmits power of attorney or other writing for purpose of receiving money from United States	1,000	10
1001	Knowingly and willfully makes any false or fraudulent statement or entry	10,000	5
1002	Knowingly with intent to defraud the United States possesses false, altered or forged writing	10,000	5
1084	Whoever in the business of betting or wagering uses wire communication in interstate or foreign commerce	10,000	2

<sup>1</sup>Except where misdemeanor.

Statute Section	Description of Offense	Penalty	
		Dollars	Years
1114	Kills any internal revenue employee or any persons assisting him while engaged in performance of duties <sup>1</sup>		
1501	Knowingly and willfully obstructs server of writ, process, warrant, or other legal process	300	1
1503	Corruptly or by threats of force or threatening communication endeavors to influence or impede due administration of justice	5,000	5
1510	Willfully endeavors by misrepresentation, force or threats of force to prevent or punish the communication of information relating to a criminal investigator	5,000	5
1621	Committing perjury generally	2,000	5
1622	Procures another to commit perjury (subornation of perjury)	2,000	5
1952	Use of interstate commerce with intent to promote, commit or distribute proceeds from unlawful activity (gambling, liquor on which tax is not paid, narcotics, prostitution extortion or bribery)	10,000	5
1953	Interstate transportation of wagering paraphernalia	10,000	5
2071(a)	Willfully and unlawfully conceals, removes, destroys or attempts such actions any record or other thing filed with any public officer of the United States	2,000	3

<sup>1</sup>Capital offense.



Statute Section	Description of Offense	Penalty	
		Dollars	Years
2071(b)	Custodian of record or other thing who willfully and unlawfully conceals, removes, mutilates, falsifies or destroys	2,000	3
2231	Forcibly assaults or interferes with person serving search warrant, or making searches and seizures <sup>1</sup>	5,000	3
2233	Forcibly rescues or attempts to rescue or dispossess property seized by authorized person	2,000	2

<sup>1</sup>\$10,000, 10 years if weapon used

SOURCE: Internal Revenue Code of 1954 (as amended), Title 18 of the United States Code, Internal Revenue Manual, and S. Doc. 94-266 (From which some of the civil penalty provisions' descriptions are adapted).

TABLE A.2  
CIVIL PENALTY STATUTES ENFORCED  
BY THE INTERNAL REVENUE SERVICE<sup>1</sup>

Statute Section	Description of Offense	Penalty
Internal Revenue Code of 1954 (Title 26 - United States Code)		
6651(a)(1)	Failure to file returns <sup>2</sup>	5 to 25% of tax
6651(a)(2)	Failure to pay tax shown on return <sup>2</sup>	0.5 to 25% of tax
6651(a)(3)	Failure to pay deficiencies after assessment <sup>2</sup>	0.5 to 25% of tax
6652(a)(1)	Failure to file statement of payments of dividends or interest <sup>2</sup>	\$10/failure up to \$25,000/yr
6652(a)(2) and (3)	Failure to make information return relating to stock options or to group term life insurance <sup>2</sup>	\$10,000/ failure up to \$25,000/yr
6652(b)	Failure to file various information returns including information returns with respect to taxes withheld <sup>2</sup>	\$1/violation up to \$1,000/yr.

<sup>1</sup>Listing does not include penalties by way of forfeitures of goods in kind, items denoted in the statute as "taxes" though construed by the courts to be a penalty provision (or imposed with that intent), or penalty provisions related solely to offenses with respect to stamps, white phosphorous matches, liquor or tobacco provisions, petroleum products, filled cheese, oleomargarine or unadulterated margarine, cotton futures, collection of foreign items. Also not included are many procedural sections related to the assessment and collection of taxes which the agency may invoke that in some sense "penalize" the taxpayer but are not in themselves penalty provisions.

<sup>2</sup>Reasonable cause exception.

Statute Section	Description of Offense	Penalty
6652(c)	Failure to properly report tips to employer by employee <sup>1</sup>	50% of employment tax on tips
6652(d)(1)	Failure to file returns required of exempt organizations <sup>1</sup>	\$10/day up to \$5,000
6652(d)(2) and (3)	Failure on written demand for manager to file exempt organization returns <sup>1</sup>	\$10/day up to \$5,000
6653(a)	Underpayment due to negligence or intentional disregard of the rules	5% of under-payment
6653(b)	Underpayment of any part which is due to fraud	50% of under-payment
6654	Failure to pay (or underpayment) by individual for estimated income tax	6% per annum
6655	Failure to pay (or underpayment) by corporation for estimated income tax	6% per annum
6656 (5684, 5761(c))	Failure to deposit tax with government depository <sup>1</sup>	5% of under-payment
6657	Bad check or money order	1% of check amount <sup>2</sup>
6658	Violation or attempted violation of termination of taxable year provisions <sup>3</sup>	25% of tax deficiency

<sup>1</sup>Reasonable cause exception.

<sup>2</sup>Or minimum \$5 or amount of check)

<sup>3</sup>In case of jeopardy

Statute Section	Description of Offense	Penalty
6672	Willful failure to collect, truthfully account for, or pay over any tax: or willful attempts to evade or defeat any such tax <sup>1</sup>	100% of tax involved
6673	Damages assessable for instituting proceedings before the Tax Court merely for delay	Max. \$500
6674	Employer who willfully provides false or fraudulent withholding statement to employees, or fails to furnish a statement	\$50/ violation
6676	Failure to supply identifying numbers on return or required document <sup>2</sup>	\$5/ violation
6677	Failure to file information return (or filing inadequate return) relating to formation of foreign trust <sup>2</sup>	5% of trust amount, to max. \$1,000
6678	Failure to furnish statements to recipients of certain items of income (dividends, interest, certain wage payments) <sup>2</sup>	\$10/ failure up to \$25,000/ year
6679	Failure to file returns as to organization or reorganization of foreign corporations and as to acquisitions of their stock <sup>2</sup>	\$1,000

<sup>1</sup>Applies to persons such as employees responsible for collecting tax on another

<sup>2</sup>Reasonable cause exception.

Statute Section	Description of Offense	Penalty
6680(a)(1)	Failure to file interest equalization of tax return where there is not liability for the tax because of Section 4918 <sup>1</sup>	5% of tax due if exemption not applied
6680(a)(2)	Failure to file return required of securities dealers under interest equalization tax <sup>1</sup>	\$1,000
6681	Knowingly making certain false statements in interest equalization tax certificates <sup>2</sup>	725% of tax <sup>3</sup>
6682	False information in claiming withholding allowances based upon itemized deductions	\$50/ statement
6683	Failure of foreign corporation to file required return of personal holding company tax	70% of taxes imposed
6684	If any person is liable for taxes relating to private foundations, by acts not due to reasonable cause, and has previously been liable for such tax or his act or omission was willful and flagrant	100% of tax
6685	Willful failure to file reports relating to private foundations or permit public inspection of return	\$1,000/ violation

<sup>1</sup>Reasonable cause exception.

<sup>2</sup>Reasonable cause exception for some of subsections.

<sup>3</sup>Or tax due if no exemption.

Statute Section	Description of Offense	Penalty
6686	Failure by DISC to file returns supply information <sup>1</sup>	\$100/ failure up to \$25,000 or \$1,000 for each failure file return
6687	Failure to furnish information relating to place of residence on return <sup>1</sup>	\$5/ failure
6688	Failure to furnish information relating to U.S.-Guam tax division	\$100/ failure
6689	Failure by foreign issuers to comply with interest equalization tax requirements <sup>1</sup>	25% of tax
6690	Willfully failing to furnish, or willfully furnishing a false or fraudulent statement of registration to pension plan participant	\$50/act or omission
6692	Failure to file actuarial report for defined benefit plan <sup>1</sup>	\$1,000
6693	Failure to file report regarding individual retirement account <sup>1</sup>	\$10/ failure
6694(a)	Negligent or intentional disregard of rules and regulations by return preparer	\$100/ return
6694(b)	Willful attempt to understate the liability of a person for tax by return preparer	\$500/ return
6695(a)	Failure of return preparer to furnish copy of return or refund claim to taxpayer <sup>1</sup>	\$25/ failure
6695(b)	Failure of return preparer to sign return or refund claim <sup>1</sup>	\$25/ failure

<sup>1</sup>Reasonable cause exception.

Statute Section	Description of Offense	Penalty
6695(c)	Failure of return preparer to furnish identifying number on return or refund claim <sup>1</sup>	\$25/ failure
6695(d)	Failure of return preparer to return (for 3 years) completed return copy of all returns or claims prepared, or retain list of name and taxpayer identification number of taxpayers whose return or claim was prepared <sup>1</sup>	\$50 up to max. \$25,000/ return period
6695(e)	Failure to file information returns (or file inadequate returns) required of income tax preparers <sup>1</sup>	\$100/ return, and \$5/ failure to supply each item on return, max. \$20,000/ return period
6695(f)	Negotiation by a return preparer of a check made in respect to the taxes which is issued to a taxpayer	\$500/ check
7407	Further penalties against return preparer engaging in activities subject to penalty under Secs. 6694, 6695, or subject to any criminal penalty, or who has misrepresented his background guaranteed payment of any refund or allowance or any credit, or engaged in other fraudulent or deceptive practices	injunction against preparing returns as return preparer, or engaging in prohibited acts
7269	Failure to file return or produce records relating to estate tax	Max. \$500

<sup>1</sup>Reasonable cause exception.

Statute Section	Description of Offense	Penalty
4971	Underfunding of qualified retired plans	5-100% on under- funding discre- tionary to assert
4972	Excess contributions to plan for self-employed individuals (retirement)	6% of excess contri- bution
4973	Excess contributions to individual retirement accounts	6% of excess contri- bution

SOURCE: Internal Revenue Code of 1954 (as amended), Title 18 of the United States Code, Internal Revenue Manual, and S. Doc. 94-266 (From which some of the civil penalty provisions' descriptions are adapted).



APPENDIX F

COVERAGE AND EVOLUTION OF MAJOR  
TAX PENALTY PROVISIONS



APPENDIX B  
COVERAGE AND EVOLUTION OF MAJOR TAX

Five major tax provisions--those accounting for 80 percent of criminal prosecutions--are outlined in some detail in the following sections. Also included is a discussion of the civil penalty for tax fraud. Each of these six statutory provisions is described, the nature of the offense outlined, and the evolution of the statutory provision traced from the time original income tax provisions<sup>1</sup> were included as part of the Tariff Act of 1913.

Section 7201: Willful Attempt to Evade or Defeat Any Tax

"Any person who willfully attempts in any manner to evade or defeat any tax imposed by this title or the payment thereof shall, in addition to other penalties provided by law, be guilty of a felony and, upon conviction thereof shall be fined not more than \$10,000, or imprisoned not more than five years, or both, together with costs of prosecution."

The origins of this provision date back to the Tariff Act of 1913 (38 Stat. 114, at 171 (Sec. II.F)). A misdemeanor rather than a felony section, the 1913 provisions was limited to making a false or fraudulent return with intent to defeat or evade" any tax. While under the current code any person may be charged under 7201, (individual, corporation, or whoever else is responsible for filing the return or assists in its filing), the 1913 act was limited to natural persons--individuals or corporate officers were required to file returns. Corporations as entities were not covered. The Revenue Act of 1918 (42 Stat. 1057 at 1085,

---

<sup>1</sup>The income tax of 1913 was not the first one levied. Legislation both in 1861 and in 1862 had levied income taxes (at progressive rates from 1862-1867), but the tax was abolished in 1872. The income tax was revived by the Wilson Tariff Act of 1894, but in 1895 the U.S. Supreme Court ruled (158 U.S. 601) the provisions unconstitutional on the grounds that an income tax was a direct tax which had to be apportioned among the states as required by the Constitution. (Nonetheless, a corporate income tax was passed in 1909.) The Sixteenth Amendment to the Constitution was adopted to give Congress the power to tax income "from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration."

Sec. 253, passed in 1919), in language almost identical to the current wording, dropped these distinctions. The offense, though, remained a misdemeanor. The Revenue Act of 1924 (43 Stat. 253 at 343, Sec. 1017(b)) redefined the offense as a felony, and the current language appears almost unchanged in revenue statutes passed after that date.

This provision is very general about the behaviors proscribed. Tax evasion can occur from not filing a return, filing a false return, refusing to pay, or from other actions--whether by the taxpayer, a return preparer, an employer or some other person. While an "attempt" need not be successful, the "term 'attempt' implies some affirmative action or the commission of some overt act" IRM 9900, Sec. 313.2(1); Spies v. United States, 317 U.S. 492 (1943) related to the evasion. Examples of actions cited by the courts have included concealing assets or sources of income, Gendelman v. United States, 191 F.2d 993; making false entries, United States v. Lange, 161 F.2d 699; destroying records, Yoffe v. United States, 153 F.2d 570; false statements to government agents to conceal tax liability, United States v. Beacon Brass Co., 344 U.S. 43; "handling one's affairs to avoid making records usual in transactions of the kind," IRM 9900, Sec. 313.2(1)(b)2, Gleckman v. United States, 80 F.2d 394; or simply filing a false return. Further, there must be some tax due at the time the offense was committed, Elwert v. United States, 231 F.2d 928, that is there must be a tax evasion intent. Finally, the action must be "willful" Spies v. United States, 317 U.S. 492. As discussed in the main body of this report, "willful" requires, at minimum, that there be "a voluntary and intentional violation of a known legal duty" (United States v. Pomponio, 429 U.S. 10 (1976)), though there has been an evolution of the Court's interpretation of this standard over the years (see Chapter 2.)

Section 7203: Willful Failure to File  
Returns, Supply Information, or Pay Tax

"Any person required under this title to pay an estimated tax or tax, or required by this title or by regulations made under authority thereof to make a return (other than a return required under authority of section 6015), keep any records, or supply any information, who willfully fails to pay such estimated tax, or tax, make such return, keep such records, or supply such information, at the time or times required by law or regulations, shall in addition to other penalties provided by law, be guilty of a misdemeanor and, upon

conviction thereof, shall be fined not more than \$10,000, or imprisoned not more than one year, or both, together with the cost of prosecution."

The willful refusal "to make [a required] return, or to supply . . . information" was a misdemeanor with the same penalties as those today under the Internal Revenue Act of 1918 (42 Stat 1085). The willful failure to pay tax was first made a criminal offense by the Revenue Act of 1924 (43 Stat 253 at 343, Sec. 1017(a)) which included language in very much the same form as Section 7203 exists today. (The prohibition relating to estimated taxes was a later addition, see Sec. 145(a) of Internal Revenue Code of 1939.)

While Section 7203 as 7201 requires "willfulness," this provision differs from 7201 in that only an omission of required behavior (not an affirmative action) is required by the offense, Sansone v. United States, 380 U.S. 343. Further, except in the case of failure to pay, no tax need be owing nor is an intent to evade taxes required, (IRM 9900, Sec. 315.21(1), United States v. Cirillo, 251 F.2d 638; United States v. McCorkle, 511 F.2d 484, cert. den., 423 U.S. 826). Finally, unlike Sec. 7201, this provision is a misdemeanor with maximum imprisonment of one rather than five years.

#### Section 7206(1): Fraud and False Statements

"Any person who . . .

(1) Declaration under penalties of perjury.-- Willfully makes and subscribes any return, statement or other document, which contains or is verified by a written declaration that it is made under the penalties of perjury, and which every material matter; . . . shall be guilty of a felony and, upon conviction thereof, shall be fined not more than \$5,000, or imprisoned not more than three years, or both, together with the costs of prosecution."

While the original tax legislation in 1913 contained a misdemeanor provision against making "false or fraudulent return or statement," it differed from 7206(1) in expressly requiring an evasion intent (38 Stat 171). The 1916 Revenue Act repeated the 1913 Act's language, but except for the War Revenue Act of 1917 which made it a misdemeanor to make "any false or fraudulent return" (40 Stat. 300 at 325, Sec 1004), later acts up until the statutes were codified into the Internal Revenue Code of 1939 contained no specific criminal prohibition against making fraudulent returns or statements except for the language now found in Section 7201.

In most respects, the behavior prohibited by Section 7206(1) is very similar to behavior prohibited under Section 7201. Indeed, one can be convicted of both offenses even though they concern the same return or false statement. Gaunt v. United States, 184 F.2d 284; Hensley v. United States, 406 F.2d 481. The one difference (except in the penalty prescribed of three rather than five years under Sec. 7201) is that Sec. 7206(1) does not require an evasion intent. The IRS's formerly administratively classified "Handbook for Special Agents" suggests using this statute rather than 7201:

"when it is possible to prove falsity of a return but difficult to establish evasion of an ascertainable amount of tax, or, when the falsification results in a relatively small amount of tax evasion." IRM 9900, Sec. 318.12(1)(c)(4).

Section 7206(2): Aiding or Advising  
Fraud and False Statements

"Any person who . . .

willfully aids or assists in, or procures, counsels, or advises the preparation or presentation under, or in connection with any matter arising under, the internal revenue laws, of a return, affidavit, claim, or other document, which is fraudulent or is false with the knowledge or consent of the person authorized or required to present such a return, affidavit, claim, or document, . . . shall be guilty of a felony and, upon conviction thereof, shall be fined not more than \$5,000, or imprisoned not more than three years, or both, together with the costs of prosecution."

Prior to 1939, this provision was contained in the Revenue Act of 1924 (43 Stat 253 at 343, Sec. 1017(c)) and the Revenue Act of 1926 (44 Stat. 9 at 116, Sec. 1114(c)). They differed from the present law in prescribing a maximum five year, rather than three year, sentence and a fine up to \$10,000 rather than \$5,000. However, this provision was dropped from the Revenue Acts of 1928 and appears again only in the Internal Revenue Code of 1939 (Section 3793(b)). The penalty remained at five years and \$10,000 until the codification in 1954, where many separate offenses, each with somewhat different penalties, were grouped together

into what is now Section 7206. In setting one uniform penalty for these offenses in subsections (1) through (5)(B), the penalty was reduced to its current level.<sup>2</sup>

The elements of the offense under Section 7206(2) are very similar to those under Section 7206(1), previously discussed. The only real difference is that one need only assist in the preparation of the false return or statement; it need not be the person's own return. This statute is often used against fraudulent tax return preparers, United States v. Herskovitz, et al., 209 F.2d 881; United States v. Hull, 356 F.2d 919; Anderson v. United States 548 F.2d 249, cert. denied, 98 S.Ct. 59. However, since aiding or assisting in the preparation of a false return is a separate offense from subscribing to a false return, a person can "be prosecuted under IRC 7206(1) for subscribing a false return and under this Code section for aiding and assisting in the preparation of the same false return." IRM 9900, Sec. 22(77).

#### Section 7215: Offenses with Respect to Collected Taxes

- (a) Penalty--Any person who fails to comply with any provision of section 7512(b) shall, in addition to any other penalties provided by law, be guilty of a misdemeanor, and upon conviction thereof, shall be fined not more than \$5,000, or imprisoned not more than one year, or both, together with the costs of prosecution.
- (b) Exceptions.--This section shall not apply--
- (1) to any person, if such person shows that there was reasonable doubt as to (A) whether the law required collection of tax, or (B) who was required by law to collect tax, and
  - (2) to any person, if such person shows that the failure to comply with the provisions of section 7512(b) was due to circumstances beyond his control.

---

<sup>2</sup>The House bill called for a five-year maximum sentence, the Senate version specified three years. In conference the Senate's three-year provision was retained (for House, Senate and Conference reports, see U.S. Code, Congressional and Administration News, 83rd Congress, 2nd Session, pp. 4572-73, 5252-53, 5344).

For purposes of paragraph (2), a lack of funds existing immediately after the payment of wages (whether or not created by the payment of such wages) shall not be considered to be circumstances beyond the control of a person."

This provision must be read in conjunction to Section 7512 which provides:

Section 7512. Separate accounting for  
Certain Collected Taxes, Etc.

(a) General rule.--Whenever any person who is required to collect, account for, and pay over any tax imposed by subtitle C or by chapter 33--

(1) at the time and in the manner prescribed by law or regulations (A) fails to collect, truthfully account for, or pay over such tax, or (B) fails to make deposits, payments, or returns of such tax, and

(2) is notified, by notice delivered in hand to such person of any such failure, then all the requirements of subsection (b) shall be compiled with. In the case of a corporation, partnership, or trust, notice delivered in hand to an officer, partner, or trustee, shall, for the purposes of this section, be deemed to be notice delivered in hand to such corporation, partnership, or trust and to all officers, partners, trustees, and employees thereof.

(b) Requirements.--Any person who is required to collect, account for, and pay over any tax imposed by subtitle C or by chapter 33, if notice has been delivered to such person in accordance with subsection (a), shall collect the taxes imposed by subtitle C or chapter 33 which become collectible after delivery of such notice, shall (not later than the end of the second banking day after any amount of such taxes is collected) deposit such amount in a separate account in a bank (as defined in section 581), and shall keep the amount of such taxes in such account until payment over to the United States. Any such account shall be designated as a special fund in trust for the United States, payable to the United States by such person as trustee. . ."



In essence, these two related sections provide criminal penalties when an employer required to withhold employment taxes (subtitle C), or person required to collect miscellaneous excise taxes on admissions, communication services (telephone, telegraph, etc.), transportation of persons (by rail, water, air, motor, etc.), or transportation of oil by pipelines (chapter 33) fails to comply after notice by the IRS of his or her obligations. This particular section was first enacted in 1958. While failure to collect, account for, and pay over such taxes is a separate offense under Section 7202 of the Code, conviction under that provision requires proof of willfulness. Courts had generally held that an absence of funds was a defense against conviction under 7202. See United States v. Poll, 521 F.2d 329. Section 7215 was therefore enacted to punish the fact of noncompliance with withholding requirements, whether or not it was willful. See Senate Report No. 1182, 85th Congress, 2nd Sess. The only elements that must be proven are that the person was required to withhold and had not done so even after notice by the government. United States v. Hemphill, 544 F.2d 341, certiorari denied, 430 U.S. 967. By the express terms of the statute, an employer's lack of funds because he is insolvent or has paid other creditors or his employees first is irrelevant (though lack of funds arising because of fire, theft, embezzlement or other casualty loss might exempt him from the criminal penalty (IRM 9900, Sec. 314(22)(4)). Thus, in some sense, this statute imposes imprisonment as punishment of a debt.<sup>3</sup>

#### Section 6653(b): Civil Fraud Penalty

"Fraud.--If any part of any underpayment . . . of tax required to be shown on a return is due to fraud, there shall be added to the tax an amount equal to 50 percent of the underpayment."

The above provision establishes, in addition to the penalties under the criminal sections, a civil penalty for tax fraud. The financial sanction imposed of 50 percent varies with the amount of underpayment in tax. While some type of civil fraud penalty has been included in the tax statutes since the enactment in 1913 of the first continuing income tax provisions, its form and coverage have varied over the years.

---

<sup>3</sup>While criminal convictions are frequent under this provision, imprisonment has in fact been imposed infrequently. Statistics for fiscal 1977 and 1978, for example, show prison time imposed in only 1 out of 5 cases.

Four major areas of change illustrate the complexities implicit in comparisons over time involving this particular penalty provision. These changes include revisions in: (a) the penalty rate, (b) the base on which the penalty is applied, (c) the standard of "fraud," and (d) the coverage of the statute(s).

Changes in rate. Rate changes occurred only in the early years. In the original 1913 act, the penalty rate was 100 percent, and briefly under the War Revenue Act of 1917 it rose to 200 percent. But by 1918 the rate was standardized to the 50 percent it is today. However, early statutes also provided additional fixed monetary penalties for fraudulent corporate returns of up to \$10,000, and fraudulent statements for personal exemption claims of \$300. These no longer exist.

Changes in the base. More significant than rate changes have been changes in the base over which the penalty is calculated. That base has changed from the total (corrected) tax liability for the return period; to the "deficiency" in reported tax; to the "underpayment." Comparisons are further complicated, since up to 1954, civil fraud provisions applicable in different situations or for types of tax varied in the base on which the penalty was applied.<sup>4</sup>

Until 1918 the fraud penalty was calculated over the entire (corrected) tax liability, not simply the amount of tax underreported.<sup>5</sup> See, for example, 38 Stat 179; 39 Stat 775. From 1918 until the Internal Revenue Code of 1954 was enacted, the base differed, depending upon which civil fraud section was applicable to the tax issue. In some cases, the amount of the tax reported on the return was deducted from the total tax liability before the fraud rate was applied to this so-called "deficiency." While the 1954 Code consolidated these separate fraud provisions into a single provision, the base was also changed to "underpayment." One

---

<sup>4</sup>Under the 1939 code frauds involving income, estate or gift taxes used the deficiency, while the rest were based on the total tax. House Report 1337, 83rd Congress, 2nd Session.

<sup>5</sup>In addition, these were the fraud penalties, previously mentioned, which imposed fixed penalties.

major difference was that if the return was not timely filed, no deduction was permitted for tax reported on the return before the fraud calculation was made.<sup>6</sup>

Changing statutory language for "fraud." Over time, the specific wording of the fraud provisions has changed, and even in the same statute the wording under different civil fraud provisions varied. Up until 1918, corporations (which were not subject to criminal fraud penalties) were subject to a penalty of up to \$10,000 for false or fraudulent returns. There was no requirement that the return, though false, be willfully made. 38 Stat. 177; 39 Stat. 773. A similar provision applied to all returns (not merely corporate returns) required by the 1917 War Revenue Act, enacted four years later. 40 Stat. 325. With these two exceptions, however, the fraud penalty up to 1954 did not apply to filing false returns, only to filing "false or fraudulent returns willfully made" or "deficiencies due to fraud with intent to evade," quoting the language most frequently employed. (See, for example, 42 Stat. 265, 313; IRC of 1939, Secs. 293, 1019, 3612(d)(2).)

However, in 1954 the phrase "with intent to evade" was dropped, and the requirement (as it exists today) became simply one of "fraud." (Neither the House or Senate Reports accompanying this legislation comment on this change. U.S. Code Congressional and Administrative News, 1954, pp. 4567, 5241.) The requirement of "intent to evade" is important. Thus, while courts have held that conviction under Sec. 7201 for willfully attempting to evade tax by filing fraudulent return collaterally stopped a taxpayer from later contesting the imposition of civil fraud penalties for that return, criminal conviction for willful failure to file a return does not in itself establish liability for the civil fraud penalty without proof that the deficiency is due to fraud with intent to evade tax. Cirillo v. Commissioner, 314 F.2d 478 compared with Tomlinson v. Lefkowitz, 334 F.2d 262, certiorari denied 379 U.S. 962. Generally, however, this statutory change has had little practical effect. Courts subsequent to 1954 have viewed a fraudulent intent as one with intent to evade, Asphalt Industries, Inc. v. Commissioner, 384 F.2d 229.

Standards and procedures differ in applying the civil fraud penalty and the criminal fraud penalty (Sec. 7201). While the criminal proceeding requires proof beyond a reasonable doubt, the civil penalty can be administratively assessed without court action. Further, should the taxpayer

---

<sup>6</sup>Nor is any reduction allowed for withheld estate taxes previously paid. Joseph A. Cerillo, TC Memo 1961-192, affd on these ground but revd on another, 314 F.2d 478; Thomlinson v. Lefkowitz, 334 F.2d 262.

take the government to court, the government's burden (IRC 7454) is no longer to establish proof of fraud "beyond a reasonable doubt" but only by "clear and convincing evidence" Mertons, Vol 10, 55.16. Thus, acquittal on charges of criminal tax evasion does not prevent the government from later asserting civil fraud penalties, Helvering v. Mitchell supra.

More important than statutory differences has been the change in judicial construction and attitude toward this provision. Some commentators have noted a "tendency toward stringent enforcement of penalties where evasion or disregard of the nation's revenue problems is involved." Merton, Vol 10, Sec 55.16; see also United States v. Klein, 247 F.2d 908 (1957). Further, relaxation in the standard of "willfulness" adopted by the courts (previously discussed at Chapter 2) has implications for civil fraud as well:

"The willfulness necessary for civil fraud is the same as for criminal fraud. The distinction lies {only} in the burden of proof. The government is required to prove that the taxpayer willfully attempted to evade his taxes beyond a reasonable doubt in a criminal case. In civil fraud, the Commissioner [where the assertion is taken to court by the taxpayer] must prove by clear and convincing evidence that the taxpayer willfully attempted to evade his tax. Clear and convincing evidence is less than that required to prove fraud beyond a reasonable doubt. . ." (IRS Internal Task Force Report, 1974, p. 19)

Thus the standard for civil as well as criminal fraud penalties has been expanded by recent judicial interpretation in United States v. Pomponio, 429 U.S. 10(1976).

Changing coverage. Generally, the scope of situations to which the civil fraud provisions apply have expanded over the years.<sup>7</sup> This has accompanied the general expansion in the tax code's coverage of individuals, firms, situations, and types of taxes--estate, gift, employment, etc.

---

<sup>7</sup>Changes adopted in the 1954 Code, however, prevented the assessment of both the separate penalties provided in Sec. 6651 for failure to file and fraud penalties. (Under the 1939 code, both penalties could be asserted. Fred N. Acker, 26 TC 107; Merton, Vol. 10, sec 55.01). In 1971, an exemption was further added to prevent the imposition of the fraud penalty on a spouse for a joint return where no "part of the Underpayment is due to the fraud of such spouse." Pub. L. 91-679.

Even within the income tax area, the coverage has changed. Originally, the penalty was applicable only to filing fraudulent returns. While it was a criminal offense not to file a return, civil fraud penalties could not be assessed for failure to file, though lesser penalties were provided.<sup>8</sup> Subsequent to the shift to a "deficiency" base in 1918, the definition of deficiency was changed in 1924. By this small change in another section of the Code, the civil fraud penalty provisions suddenly covered both fraudulent returns and attempts to evade the tax through failure to file. This change occurred for only those civil fraud sections based upon a "deficiency" calculation and complete coverage of failure to file did not occur until the codification of 1954.

While these changes are significant, actual application of the civil fraud penalty has been highly affected by changing priorities within the agency. Since 1974, for example, new emphasis has been placed upon civil fraud enforcement as a result of an internal task force study which found "almost a complete lack of application of the penalty." Task Force, p. 24. Unfortunately, time series data are not available to measure systematically these effects; only in the last two years has information been systematically compiled.

---

<sup>8</sup>The failure to file, however, was covered by other civil penalty provisions, which have always existed in one form or another. Currently it is a 25 percent maximum rate, based upon the nonpayment; in early years it was 50% and under one act, (the War Revenue Act of 1917), it ran as high as 200 percent.



APPENDIX C

HISTORICAL STATISTICS ON SOURCES OF FEDERAL REVENUE





TABLE C.1

## COMPONENTS OF INTERNAL REVENUE, 1863-1978

Year	Internal Revenue Sources (dollars in millions)								
	Gross Collections	Income		Employment		Estate and Gift		Excise	
		\$	%	\$	%	\$	%	\$	%
1863	41	3	6.7	0	0.0	0	.1	38	93.2
1864	117	20	17.4	0	0.0	0	.3	96	82.4
1865	211	61	28.9	0	0.0	1	.3	149	70.8
1866	310	73	23.5	0	0.0	1	.4	236	76.1
1867	265	66	24.9	0	0.0	2	.7	197	74.4
1868	190	41	21.8	0	0.0	3	1.5	146	76.7
1869	159	35	21.9	0	0.0	2	1.5	122	76.6
1870	184	38	20.5	0	0.0	3	1.7	143	77.8
1871	143	19	13.4	0	0.0	3	1.7	122	84.9
1872	131	14	11.0	0	0.0	0	0.0	116	89.0
1873	114	5	4.5	0	0.0	0	0.0	108	95.5
1874	102	0	.1	0	0.0	0	0.0	102	99.9
1875	110	0	0.0	0	0.0	0	0.0	110	100.0
1876	117	0	0.0	0	0.0	0	0.0	117	100.0
1877	119	0	0.0	0	0.0	0	0.0	119	100.0
1878	111	0	0.0	0	0.0	0	0.0	111	100.0
1879	113	0	0.0	0	0.0	0	0.0	113	100.0
1880	124	0	0.0	0	0.0	0	0.0	124	100.0
1881	135	0	0.0	0	0.0	0	0.0	135	100.0
1882	147	0	0.0	0	0.0	0	0.0	147	100.0
1883	145	0	0.0	0	0.0	0	0.0	145	100.0
1884	122	0	0.0	0	0.0	0	0.0	122	100.0
1885	112	0	0.0	0	0.0	0	0.0	112	100.0
1886	117	0	0.0	0	0.0	0	0.0	117	100.0
1887	119	0	0.0	0	0.0	0	0.0	119	100.0
1888	124	0	0.0	0	0.0	0	0.0	124	100.0
1889	131	0	0.0	0	0.0	0	0.0	131	100.0
1890	143	0	0.0	0	0.0	0	0.0	143	100.0
1891	146	0	0.0	0	0.0	0	0.0	146	100.0
1892	154	0	0.0	0	0.0	0	0.0	154	100.0
1893	161	0	0.0	0	0.0	0	0.0	161	100.0
1894	147	0	0.0	0	0.0	0	0.0	147	100.0
1895	143	0	.1	0	0.0	0	0.0	143	99.9
1896	147	0	0.0	0	0.0	0	0.0	147	100.0
1897	147	0	0.0	0	0.0	0	0.0	147	100.0
1898	171	0	0.0	0	0.0	0	0.0	171	100.0
1899	273	0	0.0	0	0.0	1	.5	272	99.5
1900	295	0	0.0	0	0.0	3	1.0	292	99.0
1901	307	0	0.0	0	0.0	5	1.7	302	98.3
1902	272	0	0.0	0	0.0	5	1.8	267	98.2
1903	231	0	0.0	0	0.0	5	2.3	225	97.7
1904	233	0	0.0	0	0.0	2	.9	231	99.1
1905	234	0	0.0	0	0.0	1	.3	233	99.7

Year	Internal Revenue Sources (dollars in millions)								
	Gross Collections	Income		Employment		Estate and Gift		Excise	
		\$	%	\$	%	\$	%	\$	%
1906	249	0	0.0	0	0.0	0	.1	249	99.9
1907	270	0	0.0	0	0.0	0	0.0	270	100.0
1908	252	0	0.0	0	0.0	0	0.0	252	100.0
1909	246	0	0.0	0	0.0	0	0.0	246	100.0
1910	290	21	7.2	0	0.0	0	0.0	269	92.8
1911	323	34	10.4	0	0.0	0	0.0	289	89.6
1912	322	29	8.9	0	0.0	0	0.0	293	91.1
1913	344	35	10.2	0	0.0	0	0.0	309	89.8
1914	380	71	18.8	0	0.0	0	0.0	309	81.2
1915	416	80	19.3	0	0.0	0	0.0	335	80.7
1916	513	125	24.4	0	0.0	0	0.0	388	75.6
1917	809	387	47.9	0	0.0	6	.8	416	51.4
1918	3,699	2,852	77.1	0	0.0	47	1.3	799	21.6
1919	3,850	2,601	67.6	0	0.0	82	2.1	1,167	30.3
1920	5,408	3,957	73.2	0	0.0	104	1.9	1,347	24.9
1921	4,595	3,228	70.2	0	0.0	154	3.4	1,213	26.4
1922	3,197	2,087	65.3	0	0.0	139	4.4	971	30.4
1923	2,622	1,691	64.5	0	0.0	127	4.8	804	30.7
1924	2,796	1,842	65.9	0	0.0	103	3.7	851	30.5
1925	2,584	1,762	68.2	0	0.0	109	4.2	714	27.6
1926	2,836	1,974	69.6	0	0.0	119	4.2	743	26.2
1927	2,866	2,220	77.5	0	0.0	100	3.5	545	19.0
1928	2,791	2,175	77.9	0	0.0	60	2.2	556	19.9
1929	2,939	2,331	79.3	0	0.0	62	2.1	546	18.6
1930	3,040	2,410	79.3	0	0.0	65	2.1	565	18.6
1931	2,428	1,860	76.6	0	0.0	48	2.0	520	21.4
1932	1,558	1,057	67.8	0	0.0	47	3.0	454	29.1
1933	1,620	747	46.1	0	0.0	34	2.1	839	51.8
1934	2,672	820	30.7	0	0.0	113	4.2	1,739	65.1
1935	3,299	1,106	33.5	0	0.0	212	6.4	1,982	60.1
1936	3,520	1,427	40.6	0	0.0	379	10.8	1,714	48.7
1937	4,653	2,180	46.8	266	5.7	306	6.6	1,902	40.9
1938	5,659	2,629	46.5	743	13.1	417	7.4	1,870	33.0
1939	5,182	2,185	42.2	740	14.3	361	7.0	1,895	36.6
1940	5,340	2,130	39.9	834	15.6	360	6.7	2,017	37.8
1941	7,370	3,471	47.1	926	12.6	407	5.5	2,566	34.8
1942	13,048	8,007	61.4	1,135	9.1	433	3.3	3,423	26.2
1943	22,371	16,299	72.9	1,499	6.7	447	2.0	4,126	18.4
1944	40,122	33,028	82.3	1,738	4.3	511	1.3	4,844	12.1
1945	43,800	35,062	80.0	1,719	4.1	643	1.5	6,317	14.4
1946	40,672	31,258	76.9	1,701	4.2	677	1.7	7,036	17.3
1947	39,108	29,020	74.2	2,024	5.2	779	2.0	7,285	18.6
1948	41,865	31,172	74.5	2,331	5.7	899	2.1	7,412	17.7
1949	40,463	29,605	73.2	2,476	6.1	797	2.0	7,585	18.7
1950	38,957	28,008	71.9	2,645	6.8	706	1.8	7,599	19.5
1951	50,446	37,385	74.1	3,627	7.2	730	1.4	8,704	17.3
1952	65,010	50,741	78.1	4,454	6.9	833	1.3	8,971	13.8
1953	69,687	54,131	77.7	4,718	6.8	891	1.3	9,946	14.3
1954	69,020	54,360	77.7	5,108	7.2	935	1.3	9,517	13.6

# COMPONENTS OF INTERNAL REVENUE, 1863-1978

Year	Internal Revenue Sources (dollars in millions)								
	Gross Collections	Income		Employment		Estate and Gift		Excise	
		\$	%	\$	%	\$	%	\$	%
1955	66,289	49,915	75.3	6,220	9.4	936	1.4	9,218	13.9
1956	75,113	56,636	75.4	7,296	9.7	1,171	1.6	10,009	13.3
1957	80,172	60,560	75.5	7,581	9.5	1,378	1.7	10,653	13.3
1958	79,978	59,102	73.9	8,644	10.8	1,411	1.8	10,821	13.5
1959	79,798	58,826	73.7	8,854	11.1	1,353	1.7	10,765	13.5
1960	91,775	67,125	73.1	11,159	12.2	1,626	1.8	11,865	12.9
1961	94,401	67,918	71.9	12,502	13.2	1,916	2.0	12,064	12.8
1962	99,441	71,945	72.3	12,708	12.8	2,035	2.0	12,752	12.8
1963	105,925	75,324	71.1	15,004	14.2	2,187	2.1	13,410	12.7
1964	112,260	78,891	70.3	17,003	15.1	2,416	2.2	13,950	12.4
1965	114,435	79,792	69.7	17,104	14.9	2,746	2.4	14,793	12.9
1966	128,880	92,132	71.5	20,256	15.7	3,094	2.4	13,398	10.4
1967	148,375	104,288	70.3	26,958	18.2	3,014	2.0	14,114	9.5
1968	153,637	108,149	70.4	28,086	18.3	3,082	2.0	14,320	9.3
1969	187,920	135,778	72.3	33,069	17.6	3,530	1.9	15,543	8.3
1970	195,722	138,689	70.9	37,449	19.1	3,680	1.9	15,904	8.1
1971	191,647	131,072	68.4	39,919	20.8	3,784	2.0	16,872	8.8
1972	209,856	143,805	68.5	43,714	20.8	5,490	2.6	16,847	8.0
1973	237,787	164,157	69.0	52,082	21.9	4,976	2.1	16,572	7.0
1974	268,952	184,648	68.7	62,094	23.1	5,101	1.9	17,110	6.4
1975	293,823	202,146	68.8	70,141	23.9	4,688	1.6	16,848	5.7
1976	302,520	205,752	68.0	74,203	24.5	5,307	1.8	17,258	5.7
1977	358,139	246,805	68.9	86,076	24.0	7,425	2.1	17,833	5.0
1978	399,776	278,438	69.6	97,292	24.3	5,381	1.3	18,665	4.7

SOURCE: U.S. Department of Commerce, Historical Statistics (1975), pp. 1090-1092, 1107-1108, 1109-1110, for years up to 1970; Annual Report of the Commissioner of Internal Revenue, 1971-1978, Appendix Table 1. For consistence, capital stock tax for years through 1950 is treated as an excise tax, as it is in subsequent years; the agricultural adjustment for 1934-1936 is also treated as an excise tax (see Annual Report of the Secretary of Treasury, 1947, p. 315). Note that because of difference in source, gross collections differ slightly from those reported in Appendix Table C.2.

TABLE C.2  
INCOME TAX COLLECTIONS, 1910-1978

Year	Income Taxes (millions of dollars)			Percent Individual of Total
	Total	Individual	Corporate	
1910	21	0	21	0.0
1911	34	0	34	0.0
1912	29	0	29	0.0
1913	35	0	35	0.0
1914	71	28	43	39.6
1915	80	41	39	51.2
1916	125	68	57	54.4
1917	387	198	189	51.2
1918	2,852	696	2,156	24.4
1919	2,601	684	1,917	26.3
1920	3,957	1,458	2,499	36.9
1921	3,228	1,285	1,943	39.8
1922	2,087	1,057	1,030	50.6
1923	1,691	885	806	52.3
1924	1,842	762	1,080	41.4
1925	1,762	845	916	48.0
1926	1,974	879	1,095	44.5
1927	2,220	912	1,308	41.1
1928	2,175	883	1,292	40.6
1929	2,331	1,096	1,236	47.0
1930	2,410	1,147	1,263	47.6
1931	1,860	834	1,026	44.8
1932	1,057	427	630	40.4
1933	747	353	394	47.2
1934	820	420	400	51.2
1935	1,106	527	579	47.7
1936	1,427	674	753	47.2
1937	2,180	1,092	1,088	50.1
1938	2,629	1,286	1,343	48.9
1939	2,185	1,029	1,156	47.1
1940	2,130	982	1,148	46.1
1941	3,471	1,418	2,053	40.8
1942	8,007	3,263	4,744	40.7
1943	16,299	6,630	9,669	40.7
1944	33,028	18,261	14,767	55.3
1945	35,062	19,034	16,027	54.3
1946	31,258	18,705	12,554	59.8
1947	29,020	19,343	9,676	66.7
1948	31,172	20,998	10,174	67.4
1949	29,605	18,052	11,554	61.0

INCOME TAX COLLECTIONS, 1910-1978  
(Concluded)

Year	Income Taxes (millions of dollars)			Percent Individual of Total
	Total	Individual	Corporate	
1950	28,008	17,153	10,854	61.2
1951	37,385	22,997	14,388	61.5
1952	50,741	29,274	21,467	57.7
1953	54,131	32,536	21,595	60.1
1954	54,360	32,814	21,546	60.4
1955	49,915	31,650	18,265	63.4
1956	56,636	35,338	21,299	62.4
1957	60,560	39,030	21,531	64.4
1958	59,102	38,569	20,533	65.3
1959	58,826	40,735	18,092	69.2
1960	67,125	44,946	22,179	67.0
1961	67,918	46,153	21,765	68.0
1962	71,945	50,650	21,296	70.4
1963	75,324	52,988	22,336	70.3
1964	78,891	54,590	24,301	69.2
1965	79,792	53,661	26,131	67.3
1966	92,132	61,298	30,834	66.5
1967	104,288	69,371	34,918	66.5
1968	108,149	78,252	29,897	72.4
1969	135,778	97,440	38,338	71.8
1970	138,689	103,652	35,037	74.7
1971	131,072	100,752	30,320	76.9
1972	143,805	108,879	34,926	75.7
1973	164,157	125,112	39,045	76.2
1974	184,648	142,904	41,744	77.4
1975	202,146	156,399	45,747	77.4
1976	205,752	158,969	46,783	77.3
1977	246,805	186,755	60,050	75.7
1978	278,438	213,058	65,380	76.5

SOURCE: U.S. Department of Commerce, Historical Statistics, 1975, pp. 1090-1092, 1107-1108, 1109-1110, for years up to 1970; Annual Report of the Commissioner of Internal Revenue, 1971-1978, Appendix Table 1; For the years 1914-1924, the original figures reported in the Annual Report of the Secretary of the Treasury, 1929, p 420, for total income tax collections are used. This total was allocated between the individual and corporate areas on the basis of the relative proportion reported in the Statistics of Income volumes, 1916-1923, for individual and corporate returns.

TABLE C.3

EXCISE TAX COLLECTIONS, 1863-1978  
Excise Taxes (dollars in millions)

Year	Total	Alcohol and Tobacco	% Alcohol and Tobacco of total
1863	38	10	25.9
1864	96	41	42.8
1865	149	34	22.7
1866	236	55	23.3
1867	197	59	30.1
1868	146	43	29.7
1869	122	75	61.2
1870	143	93	65.0
1871	122	87	71.9
1872	116	91	78.5
1873	108	96	88.4
1874	102	92	90.1
1875	110	99	89.5
1876	117	106	90.6
1877	119	108	91.1
1878	111	100	90.8
1879	113	103	91.2
1880	124	113	91.0
1881	135	124	91.5
1882	147	133	91.1
1883	145	133	92.3
1884	122	121	99.6
1885	112	112	99.8
1886	117	117	99.8
1887	119	118	99.2
1888	124	123	99.2
1889	131	130	99.2
1890	143	142	99.3
1891	146	145	99.1
1892	154	152	99.0
1893	161	159	98.9
1894	147	145	98.7
1895	143	141	98.6
1896	147	145	98.9
1897	147	145	99.0
1898	171	168	98.5
1899	272	220	81.0
1900	292	243	83.0
1901	302	254	84.3
1902	267	245	91.8
1903	225	223	98.9
1904	231	230	99.4

# EXCISE TAX COLLECTIONS, 1863-1978

Excise Taxes (dollars in millions)

Year	Total	Alcohol and Tobacco	% Alcohol and Tobacco of total
1905	233	232	99.4
1906	249	247	99.4
1907	270	268	99.3
1908	252	250	99.3
1909	246	244	99.2
1910	269	267	99.2
1911	289	287	99.2
1912	293	290	99.1
1913	309	307	99.2
1914	309	306	99.2
1915	335	304	90.6
1916	388	336	86.5
1917	416	387	93.1
1918	799	600	75.1
1919	1,167	689	59.0
1920	1,347	436	32.3
1921	1,213	338	27.8
1922	971	316	32.6
1923	804	339	42.2
1924	851	353	41.5
1925	714	371	52.0
1926	743	397	53.5
1927	545	397	72.9
1928	556	412	74.1
1929	546	447	81.9
1930	565	462	81.8
1931	520	455	87.4
1932	454	407	89.8
1933	839	446	53.2
1934	1,739	684	39.3
1935	1,982	870	43.9
1936	1,714	1,007	58.7
1937	1,902	1,146	60.3
1938	1,870	1,136	60.8
1939	1,895	1,168	61.6
1940	2,017	1,233	61.1
1941	2,566	1,518	59.2

# EXCISE TAX COLLECTIONS, 1863-1978

Excise Taxes (dollars in millions)

Year	Total	Alcohol and Tobacco	% Alcohol and Tobacco of total
1942	3,423	1,829	53.4
1943	4,126	2,348	56.9
1944	4,844	2,607	53.8
1945	6,317	3,242	51.3
1946	7,036	3,692	52.5
1947	7,285	3,713	51.0
1948	7,412	3,556	48.0
1949	7,585	3,532	46.6
1950	7,599	3,548	46.7
1951	8,704	3,927	45.1
1952	8,971	4,114	45.9
1953	9,946	4,436	44.6
1954	9,517	4,363	45.8
1955	9,218	4,314	46.8
1956	10,009	4,534	45.3
1957	10,653	4,647	43.6
1958	10,821	4,680	43.3
1959	10,765	4,809	44.7
1960	11,865	5,125	43.2
1961	12,061	5,204	43.1
1962	12,752	5,367	42.1
1963	13,410	5,521	41.2
1964	13,950	5,630	40.4
1965	14,793	5,921	40.0
1966	13,398	5,888	43.9
1967	14,114	6,156	43.6
1968	14,320	6,410	44.8
1969	15,543	6,693	43.1
1970	15,904	6,841	43.0
1971	16,872	7,007	41.5
1972	16,847	7,317	43.4
1973	16,572	7,426	44.8



# EXCISE TAX COLLECTIONS, 1863-1978

Excise Taxes (dollars in millions)

Year	Total	Alcohol and Tobacco	% Alcohol and Tobacco of total
1974	17,110	7,795	45.6
1975	16,848	7,666	45.5
1976	17,258	7,916	45.9
1977	17,833	7,805	43.8
1978	18,665	8,064	43.2

SOURCE: U.S. Department of Commerce, Historical Statistics (1975), pp. 1090-1092, 1107-1108, 1109-1110, for years up to 1970; Annual Report of the Commissioner of Internal Revenue, 1971-1978, Appendix Table 1. For consistence, capital stock tax for years through 1950 is treated as an excise tax, as it is in subsequent years; the agricultural adjustment for 1934-1936 is also treated as an excise tax (see Annual Report of the Secretary of Treasury, 1947, p. 315). Note that because of difference in source, gross collections differ slightly from those reported in Appendix Table C.2.



APPENDIX D

DETAILED CATEGORIES CODED BY IRS  
ON CRIMINAL INVESTIGATION CASES



TABLE D.1

OCCUPATIONAL CATEGORIES  
CODED ON CRIMINAL INVESTIGATION CASES

This three-character occupation coding system is an adaptation of a comprehensive system developed by OMB to ensure comparability

---

Officials, Administrators and Middle Managers  
in Public Administration (Government);

111	Chief Executives and General Administrators, Government
112	Legislators and Elected Officials, including City Councilmen, Governor, Mayor, City Manager
113	Administrators, Government Agencies including Judicial, Human Resources & Public Finance
117	Inspectors and regulatory officers, government
119	Officials and administrators: public, not elsewhere classified

Officials, Administrators and Middle Managers  
Other than Government;

121	Owners, General managers, and other top executives: presidents, directors, superintendents
122	Financial managers, e.g., treasurer, controller, bank cashier
123	Personnel and Industrial Relations Managers
124	Purchasing Managers
125	Managers: Marketing, Advertising and Public Relations
126	Managers: Engineering, Mathematics and Natural Sciences including Project Directors

- 127 Managers: Social Sciences and Related Fields
- 128 Administrators: Education and Related Fields
- 131 Managers: Medicine and Health
- 132 Production Managers, Industrial
- 133 Construction Managers
- 134 Managers: Public Utilities
- 135 Managers: Service Organizations, e.g., Food Serving, Entertainment, Recreation, Membership Organizations
- 136 Managers: Mining, Quarrying, Well Drilling and Similar Operations
- 139 Officials and Administrators: Other, Not Elsewhere Classified

Management Related Occupations

- 141 Accountants, Auditors and other Financial Specialists
- 142 Management Analysts and Management Consultants
- 143 Personnel Training, and Labor Relations Specialists
- 144 Purchasing Agents and Buyers
- 145 Business and Promotion Agents: Organizers, Booking Agents, Promoters
- 146 Inspectors and Regulatory Officers, Government, e.g., S/A's Special Agent
- 147 Inspectors and Regulatory Officers, Non-Government

- 149 Management Related Occupations, Not  
Elsewhere Classified
- 151 Certified Public Accountant
- 152 Return Preparer/Tax Practitioner

Engineers and Architects

- 161 Architects
- 162 Engineers, all

Natural Scientists and Mathematicians

- 181 Computer Scientists and Specialists  
(not Programmers or Operators)
- 182 Operators and Systems Researchers  
and Analysts
- 183 Mathematical Scientists including  
Mathematicians, Actuaries and  
Statisticians
- 184 Physical Scientists, e.g.,  
Astronomers, Chemists, Geologists,  
Physicists
- 185 Life Scientists, e.g., Biologists,  
Geneticists, Zoologists

Social Scientists, Social Workers,  
Religious Workers and Lawyers;

- 221 Social Scientists, e.g., Economists,  
Psychologists, and Sociologists
- 222 Urban and Regional Planners
- 223 Social and Recreation Workers, e.g.,  
Welfare Workers
- 224 Clergy and Religious Workers
- 225 Lawyers and Attorneys
- 226 Judges

Teachers, Librarians and Counselors

- 251 Teachers, Colleges and Universities  
(including Junior Colleges) Teachers  
Aides, see 449
- 255 Teachers, except College and  
University
- 256 Vocational and Educational  
Counselors
- 257 Librarians, Archivists, Curators  
(for Clerks see 449)

Health Diagnosing and Treating Practitioners

- 282 Physicians, e.g., Medical,  
Psychiatric and Osteopathic
- 283 Dentists and Orthodontists
- 284 Optometrists and Ophthalmologists
- 285 Pharmacists
- 287 Veterinarians
- 288 Chiropractors
- 289 Health Diagnosing and Treating  
Practitioners, Other

Entertainers, Artists, Writers and Athletes

- 311 Authors, Artists, Performers  
(including Actors and Musicians),  
and Related Workers
- 312 Editors, Reporters, Publicity  
Writers, and Announcers
- 313 Athletes and Related Workers
- 314 Jockey/Horse Trainer



Health Technologists and Technicians

- 341 Nurses, Dietitians and Therapists
- 342 Other Health Technologists and Technicians, e.g., Clinical Employees Other Than Nurses

Technologists and Technicians, Except Health

- 371 Engineering Technologists and Technicians, e.g., Draftsmen, Electronic Technicians, Surveyors
- 372 Science Technologists and Mathematical Technicians
- 373 Air and Ship Officers and Technicians
- 379 Technicians, e.g., Embalmer/Morticians, Radio Operator, Computer Programmer

Marketing and Sales Occupations

- 411 Sales Managers and Department Heads, Wholesale and Retail-including Supervisors
- 412 Technical Sales Workers and Service Advisors
- 413 Sales Representatives and Manufacturers Representatives
- 414 Sales Occupations: Salespersons and Clerks, Hucksters and Vendors, Door-to-Door Sales, Auctioneers

Service Sales Occupations: Insurance, Securities, and Real Estate

- 421 Supervisors: Sales Occupations; Insurance, Real Estate and Services
- 422 Sales Occupations: Insurance, Real Estate and Securities
- 425 Other Service Sales Occupations, including Advertising Agencies

Related Sales Occupations

- 432 Buyers and Purchasing Agents:  
Wholesale and Retail Trade
- 433 Driver-Sales Workers, e.g., Delivery  
and Route Workers
- 434 Appraisers and Related Occupations
- 435 Demonstrators, Models and Sales  
Promoters
- 436 Shoppers
- 439 Related Sales Occupations: Other,  
Not Elsewhere Classified

Clerical Occupations, except Office Equipment  
Operators Including Supervisors

- 441 Secretaries and Stenographers
- 442 Typists and Related Keyboard  
Operators
- 443 General Office Clerical Occupations  
including Office Managers
- 444 Information Clerks, e.g.,  
Reservation Agents, Receptionists,  
Travel Agents
- 445 Communications Equipment Operators
- 446 Correspondence Clerks and Order  
Clerks
- 447 Ticket Sellers and Counter Clerks
- 448 Cashiers and Bank Tellers
- 449 Record Clerks, e.g., File Clerks,  
Personnel Clerks, Library Clerks,  
Teacher Aides
- 451 Bookkeepers, Billing, Accounting,  
Payroll and Statistical Clerks
- 452 Mail Postal Clerks (not Post Office  
Employees)

- 453                      Message Distribution Clerks  
                         (including Mail Carriers and other  
                         Post Office employees)
- 454                      Material Recording, Scheduling and  
                         Shipping and Receiving Clerks, Parts  
                         and Stock Clerks
- 458                      Adjusters, Investigators, Collectors  
                         and Examiners
- 459                      Miscellaneous Clerical Occupations

Computing and Office Equipment Operators Including Supervisors

- 465                      Computer and Peripheral Equipment  
                         Operators
- 466                      Billing, Posting and Calculating  
                         Machine Operators
- 467                      Duplicating, Mail and Other Office  
                         Machine Operators

Protective Service Occupations, Including Supervisors

- 511                      Firefighting and Fire Prevention  
                         Occupations
- 512                      Law Enforcement Officers
- 513                      Guards, Private Detectives

Service Occupations, Except Private Household and Protective Including Supervisors

- 521                      Bartenders, Waiters, Waitresses,  
                         etc.
- 522                      Other Food and Beverage Preparation  
                         and Service Occupations, Cooks,  
                         Kitchen Workers
- 523                      Health Service Occupations, e.g.,  
                         Dental Hygienists, Nurse Aides,  
                         Orderlies
- 524                      Cleaning and Building Service  
                         Occupations, except Private  
                         Household, e.g., Maids, Janitors,  
                         Pest Control

525 Barbers, Beauticians, Bellhops,  
Porters, Doormen, etc.

526 Miscellaneous Service Occupations,  
including Masseur, Escort,  
Bootblacks, Attendants

Private Household Occupations

532 Private Household Occupations, e.g.,  
Butlers, Cooks, Housekeepers, Child  
Care Workers

533 Retired

534 Unemployed Persons

535 Student

551 Reserved

552 Reserved

Other Agricultural and Related Occupations  
Including Supervisors

561 Farm Occupations, except Managerial,  
e.g., Farm Workers, Farm Machinery  
Operators

562 Related Agricultural Occupations,  
e.g., Gardeners, Graders and  
Sorters, Inspectors

Forestry and Logging Occupations Including Supervisors

571 Forestry and Logging Occupations,  
e.g., Inspectors, Sealers, Graders,  
Sawyers

Fishers, Hunters and Trappers Including Supervisors

581 Fishers, Hunters and Trappers

Construction Trades Including Supervisors

611 Supervisors, Overall Construction

612 Brickmasons, Stonemasons, Stone  
Cutters and Hard Tile Setters

- 613                      Carpenters and Related Workers,  
e.g., Wood Floor Layers, Drywall  
Installers
- 614                      Electricians and Power Transmission  
Installers
- 615                      Painters, Paperhangers and  
Plasterers
- 616                      Plumbers and Pipefitters and  
Steamfitters
- 617                      Construction Inspectors
- 618                      Other Construction Trades, e.g.,  
Carpet Installers, Concrete  
Finishers, Glaziers, Roofers,  
Structural Steel Workers, Surveyors,  
Helpers

#### Extractive Occupations

- 622                      Extractive Occupations and  
Supervisors, e.g., Oil Well Drilling  
and Mining

#### Transportation Occupations Including Supervisors

- 641                      Motor Vehicle Occupations, e.g.,  
Dispatcher, Truck and Taxi Drivers
- 643                      Rail Transport Occupations, e.g.,  
Engineers and Firemen, Conductors,  
Switchmen
- 644                      Water Transportation Occupations,  
e.g., Boat Operators, Sailors and  
Deckhands
- 645                      Air Transportation Occupations
- 647                      Transportation Inspectors

#### Material Moving Occupations, Except Transportation

- 656                      Material Moving Equipment Operators  
and Supervisors, e.g., Crane,  
Derrick, and Hoist Operators and  
Excavating, Grading and Road Machine  
Operators

Mechanics and Repairers Including Supervisors

- 671 Supervisors: Mechanics and Repairers
- 672 Vehicle and Mobile Equipment Mechanics and Repairers
- 673 Industrial Machinery Repairers
- 675 Electrical and Electronic Equipment Repairers, including Telephone Installers and Repairers Home Appliances
- 677 Heating, Air-Conditioning, and Refrigeration Mechanics
- 678 Occupations Related to Mechanics and Repairers, including Garage and Service Station Related Occupations
- 679 Miscellaneous Mechanics and Repairers, e.g., Watches, Locksmiths, Elevators, etc.

Supervisors: Production Occupations

- 711 Supervisors: Production Occupations
- 712 Supervisors: Precision Production Occupations

Precision Production Occupations

- 722 Precision Metal Working Occupations, e.g., Machinists, Boilermakers, Engravers, Patternmakers, Tool and Die Makers
- 724 Precision Woodworking Occupations, e.g., Cabinet Makers, Carvers
- 725 Precision Food Processing Occupations, e.g., Butchers, Bankers, Batch Makers, Millers of Grain, Bottling and Canning Operators
- 726 Precision Printing Occupations, e.g., Typesetters, Lithographers

- 727 Precision Inspectors, Testers and Related Occupations
- 728 Precision Textile, Apparel and Furnishing Machine Occupations, e.g., Dressmakers, Tailors, Shoemakers and Repairers, Dry Cleaning
- 729 Precision Occupations: Assorted Materials, Optical Goods

Machine Setup Occupations<sup>1</sup>

- 731 Metal and Plastic Working Machine Setup and Operate Occupations
- 733 Metal Fabricating Machine Setup and Setup and Operate Occupations
- 734 Metal Processing Machine Setup and Setup and Operate Occupations
- 735 Woodworking Machine Setup and Setup and Operate Occupations
- 736 Printing Machine Setup and Setup and Operate Occupations
- 737 Textile Machine Setup and Setup and Operate Occupations
- 738 Assorted Materials: Machine Setup and Setup and Operate Occupations

Machine Operating Occupations<sup>2</sup>

- 741 Metalworking and Plastic Working Machine Operating Occupations
- 743 Metal Fabricating Machine Operating Occupations
- 744 Metal and Plastic Processing Machine Operating Occupations
- 745 Woodworking Machine Operating Occupations
- 746 Printing Machine Operating Occupations

747 Textile, Apparel and Furnishings  
Machine Operators

748 Assorted Materials: Machine  
Operating Occupations

Machine Tending<sup>3</sup>

751 Metalworking and Plastic Working  
Machine Tending Occupations

753 Metal Fabricating Machine Tending  
Occupations

754 Metal and Plastic Processing Machine  
Tending Occupations

755 Woodworking Machine Tending  
Occupations

756 Printing Machine Tending Occupations

757 Textile, Apparel, and Furnishings  
Machine Tending Occupations

758 Assorted Materials Machine Tending  
Occupations

Fabricators, Assemblers and Hand Finishers

761 Fabricators-use techniques such as  
welding, soldering and related  
techniques

762 Assemblers, Metal Products including  
Assembly Line Workers

764 Assemblers, Miscellaneous Products  
including Assembly Line Workers

765 Hand Working Occupations including  
Sewing, Cutting and Trimming,  
Forming and Shaping, Engraving,  
Grinding and Polishing

766 Machinery Maintenance Occupations



Production Inspectors, Testers, Samplers and Weighers

- 772                      Production Inspectors
- 773                      Production Testers
- 774                      Production Samplers and Weighers
- 779                      Production Inspectors, Not Elsewhere  
Classified, e.g., Graders and  
Sorters, Manufacturing

Plant and System Operators

- 781                      Plant and System Operators, e.g.,  
Water and Sewage Power, Food  
Products, Chemical, Gas and  
Petroleum

Elemental Occupations

- 812                      Construction Laborers
- 813                      Freight, Stock, and Material Movers,  
Hand, e.g., Longshoremen,  
Warehousemen, Trash Haulers, Garbage  
Collectors
- 814                      Vehicle Washers and Equipment  
Cleaners
- 815                      Machine Feeders and Offbearers
- 819                      Miscellaneous Elemental Occupations,  
e.g., Gas Station Attendants,  
Laundry and Dry Cleaning Operatives,  
Oilers and Greasers, Packers and  
Wrappers, Furnace Tenders and  
Stokers, Fork Lift Operatives,  
Animal Caretakers

Military Occupations

- 911                      Military Occupations, All

Miscellaneous Occupations

000	Unknown or not codeable
998	Inmate, Prisoner
999	Occupation Not Listed

---

1These occupations involve setting up and adjusting machinery to provide for different kinds of products.

2These occupations involve the controlling and adjusting of machines and equipment but do not involve the setting up or adapting the machine to a new or different type of operation. Workers that only start, stop and observe the operation of the machine and make only minor adjustments are classified in the 751-8 series.

3These occupations involve the starting, stopping and observing of machinery and stopping them if a malfunction occurs, but do not generally involve the controlling or adjusting of the machinery. These workers may also perform feeding and offbearing duties.

SOURCE: Internal Revenue Manual, Case Management and Time Reporting System Handbook, IRM 9570 (MT 9570-16, September 29, 1978), Exhibit 400-3.

TABLE D.2  
INDUSTRY CODE  
CRIMINAL INVESTIGATION CASES

<u>Code</u>	<u>Industry Description</u>
01	Farming
02	Agricultural
03	Petroleum
04	Government
08	Forestry
09	Fisheries
10	Mining
15	Contract Construction-building
16	General Contractors--other than building
17	Classified Trades
21	Food and kindred products
22	Textile mill products
23	Apparel, textile products
24	Lumber and wood products
25	Furniture and fixtures
27	Printing and publishing
31	Leather and leather products
32	Stone, clay and glass products
33	Metal products
35	Machinery, except electric
36	Electrical machinery and equipment
37	Transportation equipment

41	Local transportation
42	Trucking and warehousing
43	Rail transportation
44	Water transportation
45	Air transportation
46	Pipeline transportation
47	Transportation services
48	Communications
49	Utilities
52	Building materials, hardware
53	General merchandise
55	Motor vehicles and supplies
58	Restaurants and bars
60	Banking
61	Credit agency other than banks
62	Security and commodity brokers
64	Insurance
65	Real Estate
66	Investments
70	Lodging
72	Personal services
73	Business services
75	Automotive repair and services
76	Miscellaneous repair services
78	Motion pictures
79	Amusement and recreation, except motion pictures
80	Medical and health services

81	Legal services
82	Educational services
89	Accounting services
90	Gambling, legalized
91	Club, fraternal organization
97	Industry unknown
98	Industry code not applicable
99	Other

---

SOURCE: Internal Revenue Manual, Case Management and Time Reporting System Handbook, IRM9570 (MT 9570-16, September 29, 1978), Exhibit 400-1 (12).

TABLE D.3

TAXPAYER INCOME/ASSET/ACTIVITY/CLASS CODES  
CRIMINAL INVESTIGATION CASES

---

<u>Individuals</u> (Income Tax Forms 1040, 1040A and 1040C1)	
101	Nonbusiness--under \$10,000--standard deduction--income only wages and/or interest and dividends under \$200, no "other" income or adjustments to income
102	Nonbusiness--deficit

103	Nonbusiness--under \$10,000--itemized deductions; or standard deduction with interest and dividend income \$200 or more, "other" income or adjustments to income
104	Nonbusiness--\$10,000 under \$15,000
105	Nonbusiness--\$15,000 under \$50,000
106	Nonbusiness--\$50,000 and over
107	Business, farm--deficit
108	Business, farm--under \$10,000
109	Business, farm--\$10,000 under \$30,000
111	Business, farm--\$30,000 and over
112	Business, nonfarm--deficit
113	Business, nonfarm--under \$10,000
114	Business, nonfarm--\$10,000 under \$30,000
116	Business, nonfarm--\$30,000 and over

Fiduciary  
(Income Tax Form 1041)

120	Nonbusiness--deficit
121	Nonbusiness--under \$10,000
122	Nonbusiness--\$10,000 under \$50,000
124	Nonbusiness--\$50,000 and over
125	Business, farm--deficit
126	Business, farm--under \$10,000
127	Business, farm--\$10,000 under \$30,000
129	Business, farm--\$30,000 and over
130	Business, nonfarm--deficit
131	Business, nonfarm--under \$10,000

132 Business, nonfarm--\$10,000 under  
\$30,000

134 Business, nonfarm--\$30,000 and over

Nonresident Alien  
(Income Tax Form 1040NR)

140 Nonbusiness--deficit

141 Nonbusiness--under \$10,000

142 Nonbusiness--\$10,000 under \$15,000

143 Nonbusiness--\$15,000 under \$50,000

144 Nonbusiness--\$50,000 and over

145 Business, farm--deficit

146 Business, farm--under \$10,000

147 Business, farm--\$10,000 under  
\$30,000

149 Business, farm--\$30,000 and over

150 Business, nonfarm--deficit

151 Business, nonfarm--under \$10,000

152 Business, nonfarm--\$10,000 under  
\$30,000

154 Business, nonfarm--\$30,000 and over

Individuals with Exempt Income From Abroad  
(Forms 1040 with Form 2555)

160 Nonbusiness--deficit

161 Nonbusiness--under \$10,000

162 Nonbusiness--\$10,000 under \$15,000

163 Nonbusiness--\$15,000 under \$50,000

164 Nonbusiness--\$50,000 and over

165 Business, farm--deficit

166	Business, farm--under \$10,000
167	Business, farm--\$10,000 under \$30,000
169	Business, farm--\$30,000 and over
170	Business, nonfarm--deficit
171	Business, nonfarm--under \$10,000
172	Business, nonfarm--\$10,000 under \$30,000
174	Business, nonfarm--\$30,000 and over

Partnerships  
(Form 1065)

180	Net loss of \$25,000 or more
181	Net loss of \$1 under \$25,000
182	Net profit of \$0 under \$25,000
183	Net profit of \$25,000 or more

Corporations

(Income Tax Forms 1120, 1120L2, 1120M3; 1120H4)

203	No balance sheet
205	Under \$50,000
207	\$50,000 under \$100,000
209	\$100,000 under \$250,000
211	\$250,000 under \$500,000
213	\$500,000 under \$1,000,000
215	\$1,000,000 under \$5,000,000
217	\$5,000,000 under \$10,000,000
219	\$10,000,000 under \$50,000,000
221	\$50,000,000 under \$100,000,000
223	\$100,000,000 under \$250,000,000



225 \$250,000,000 and over

Small Business Corporations  
(Form 1120S)

Taxable

202	No balance sheet
204	Under \$50,000
206	\$50,000 under \$100,000
208	\$100,000 under \$250,000
210	\$250,000 under \$500,000
212	\$500,000 under \$1,000,000
214	\$1,000,000 under \$5,000,000
216	\$5,000,000 under \$10,000,000
218	\$10,000,000 under \$50,000,000
220	\$50,000,000 under \$100,000,000
222	\$100,000,000 and over

Nontaxable

287	All nontaxable Forms 1120S (All Forms 1120S--Form 4502 and 4502-A)
-----	--

Domestic International Sales Corporation  
(Income Tax Form 1120-DISC)

224	Form 1120DISC
-----	---------------

Foreign Corporations  
(U.S. Income Tax Form 1120F)

243	No balance sheet
245	Under \$50,000
247	\$50,000 under \$100,000
249	\$100,000 under \$250,000
251	\$250,000 under \$500,000

253	\$500,000 under \$1,000,000
255	\$1,000,000 under \$5,000,000
257	\$5,000,000 under \$10,000,000
259	\$10,000,000 under \$50,000,000
261	\$50,000,000 under \$100,000,000
263	\$100,000,000 under \$250,000,000
265	\$250,000,000 and over

#### Exempt Organizations

##### Form 9906

327	501(c)(1)
328	501(c)(2)--The Holding Corporations
339	Private Schools
340	Education other than Private Schools
341	Other
342	Religious
343	Scientific
344	Hospitals
345	Pre-examination
347	501(c)(4)
350	501(c)(5)--Labor
351	501(c)(5)--Other
354	501(c)(6)--Business League--Gross Income under \$100,000
355	501(c)(6)--Business League--Gross Income \$100,000 and over
358	501(c)(7)--Pleasure, Recreational, Social Club
360	501(c)(8)

361	501(c)(9)
363	501(c)(10)
364	501(c)(11)
365	501(c)(12)--Mutual Under \$500,000
366	501(c)(12)--Mutual \$500,000 and over
369	501(c)(13)
371	501(c)(14)--Credit Union--Assets Under \$500,000
372	501(c)(14)--Credit Union--\$500,000 and over
373	501(c)(15)--Mutual Insurance
374	501(c)(16)--Financing Corp Operations
375	501(c)(17)--Supplemental Unemployment Trust
376	501(c)(18)--Employee Funded Pension Fund
377	501(c)(19)--War Veterans
378	501(c)(20)--Legal Service Organization
381	501(e)--Cooperative Hospital

Form 990PF7

329	501(c)(3)--Private Foundation--Assets Under \$25,000
330	501(c)(3)--Private Foundations--\$25,000 under \$100,000
331	501(c)(3)--Private Foundations--\$100,000 under \$500,000
332	501(c)(3)--Private Foundations--\$500,000 under \$1,000,000
333	501(c)(3)--Private Foundations--\$1,000,000 and Over

Form 990T8

386	501(c)(2)
387	501(c)(3)--Private Foundation
388	501(c)(3)--Other than Private Foundation
389	501(c)(4)
390	501(c)(5)
391	501(c)(6)
392	501(c)(7)
393	501(c)(8)
394	Form 990T--All others

Form 990C9

383	521--Farmers' Cooperative--Gross Income under \$10,000,000
384	521--Farmers' Cooperative--Gross Income \$10,000,000 and Over

Form 472010

334	Private Foundations only (4941 through 4945)
-----	--

Form 522711

335	4947(a)(1) & (2)--NECT--Assets under \$100,000
336	4947(a)(1) & (2)--NECT--\$100,000 and Over

Form 1065 (Partnerships)

380	501(d)--Apostolic and Religious
-----	---------------------------------

Form 1041 (Trusts)

337

Form 1120EO (Exempt Corporations)

338

Form 1120POL (Political Organizations)

396

Miscellaneous

345 Pre-examination

395 EO returns on business master file

Employee Plans Activity Codes

307 Form 5500

308 Form 5500C

309 Form 5500K

310 Form 5330

311 Forms 990P or 4848

Estate (Gross Estate)

403 Under \$60,000

405 \$60,000 under \$100,000

407 \$100,000 under \$150,000

409 \$150,000 under \$200,000

411 \$200,000 under \$300,000

413 \$300,000 under \$500,000

415 \$500,000 under \$1,000,000

417 \$1,000,000 under \$5,000,000

419 \$5,000,000 and over

Gift (Total Gifts)

423 Under \$5,000

425 \$5,000 under \$10,000

427 \$10,000 under \$20,000

429 \$20,000 under \$50,000

431 \$50,000 under \$100,000

433 \$100,000 under \$200,000

435	\$200,000 under \$600,000
437	\$600,000 under \$1,000,000
439	\$1,000,000 and over

Employment

464	Form 940
465	Form 941
466	Form 942
467	Form 943
468	Form CT-1
469	Form CT-2
470	Form 1042
471	Form 1040PR
472	Form 1040SS

Excise

Form 720 (Products and Commodities)

514	Aviation fuel--gasoline
560	Sugar
561	Diesel and special motor fuel
562	Gasoline
563	Lubricating oil
566	Tires
567	Inner Tubes
568	Tread rubber
569	Aviation fuel--jet fuel, special fuel other than gasoline

Form 720 (Facilities and Services)

522	Telephone services
526	Transportation of persons by air

527	Use of international air travel facilities
528	Transportation of property by air
530	Policies issued by foreign insurers

Form 720 (Manufacturers)

532	Pistols and revolvers
533	Trucks and bus chassis and bodies
534	Other auto chassis
541	Fishing equipment
544	Bow and arrows
546	Firearms
548	Truck parts and accessories
549	Shells and Cartridges

Other Forms

575	Form 4638--Federal use tax on civil aircraft
480	Form 730--Wagering Excise
581	Form 3845--Interest equalization
582	Form 3780--Interest equalization
583	Other interest equalization
583	Form 11-C--Wagering occupational
585	Other regulatory taxes, coin-operated gaming devices
586	Form 2290--Highway use tax
587	Repealed taxes
588	Registry and exemptions
589	Claims by other than taxpayers
590	Other excise taxes

991 Form ICALDE-1 (California Debris)  
and Form 2814 (Adulterated Butter or  
Filled Cheese)

992 Other Taxes

---

1U.S. Departing Alien Income Tax Return

2U.S. Life Insurance Company Income Tax Return

3U.S. Mutual Life Insurance Company Income Tax Return

4U.S. Income Tax Return for Homeowners Association

5Small Business corporations electing that income be  
taxed directly to individual [IRC 1372, Subchapter  
Companies].

6Returns of organizations exempt from income tax under  
IRC 501(a); other than private foundations (informative  
returns).

7Private foundations, exempt from income tax under IRC  
SOI(c) (information returns).

8Return for reporting unrelated business income by  
exempt organizations

9Exempt Cooperative Association Income Tax Return

10For reporting excise taxes on churches and other  
persons with IRC chapters 41 and 42

11Nonexempt Charitable Trust, IRC 4947(a)

SOURCE: Internal Revenue Manual, Case Management and  
Time Reporting System Handbook, IRM 9570 (MT 9570-16,  
September 29, 1978), Exhibit 400-1 (38) (B).



TABLE D.4  
 ILLEGAL ACTIVITY CODES  
 CRIMINAL INVESTIGATION CASES

---

<u>Code</u>	<u>Description of Activities</u>
	<u>I. Illegal Activities</u>
050	NARCOTICS AND DANGEROUS DRUGS
051	Supplier
052	Pusher
053	User
054	Financier
055	Transporter
056	Smuggler
060	PROSTITUTION
061	Madam
062	Pimp/Panderers
063	Prostitute
065	Massage
070	LOAN SHARKING
071	Lender
072	Borrower
073	Collector
074	Financier
075	Loan arranger
080	CORRUPTION-PUBLIC TRUST
081	Corruption-Federal
082	Corruption-State

083	Corruption-Local
100	LEGAL BUSINESS
110	Labor Racketeering
111	Multi-Union Organizer
112	Pension Funds
113	Kickbacks
120	COIN-OPERATED DEVICES--GAMING
121	Manufacturers
123	Consignees
130	COIN-OPERATED DEVICES--VENDING
131	Service Equipment
132	Cigarettes
133	Entertainment
134	Food & Beverage
140	FOREIGN ILLEGAL FINANCIAL TRANSACTIONS
141	Banking
142	Insurance
143	Securities
144	Corporations
145	Courier
150	FRAUD
151	Mail
152	Skimming
153	Confidence Scheme
154	Securities
155	Credit Card
156	Welfare & Pension Funds

158 Medical  
159 Exempt organizations  
160 Land Sales  
161 Payroll Padding

II. Other Activities Impacting Tax Administration

162 Altered Documents  
163 Corporate Slush Funds  
164 Unlawful Tax Return Preparer (one  
who prepares returns for others)  
165 Unlawful Multiple Tax Return Flier  
166 Unlawful Tax Protester

---

SOURCE: Internal Revenue Manual, Case Management and  
Time Reporting System Handbook, IRM9570 (MT 9570-16,  
September 29, 1978), Exhibit 400-1 (11).

TABLE D.5  
SOURCE OF REFERRAL CODES  
CRIMINAL INVESTIGATION CASES

<u>Code</u>	<u>Source</u>
<u>Criminal Investigation Division</u>	
01	a. Initiated by Special Agent
07	b. Lead developed from authorized individual information gathering assignment
14 CID Project	c. Lead developed from authorized
<u>IRS Examination Division</u>	
02	a. Regular referral
03	b. Originally referred from CID to Examine Division
11 Measurement Program.	c. Referred from Taxpayer Compliance
<u>Collection Referred from IRS Collection Division</u>	
04	a. Regular referral
05	b. Originally referred from CID to Collection Division
<u>Other IRS Offices/Divisions</u>	
10	a. Information returns program
15	b. Other IRS
	c. Service center
<u>Government Outside IRS</u>	
12	a. Drug Enforcement Administration (Class 'I' Violators Only)

- |              |                                     |
|--------------|-------------------------------------|
| 13           | b. Customer Service                 |
| 08           | c. Currency transaction report      |
| 17<br>Report | d. Currency and Monetary Instrument |

Public

- |                      |                                       |
|----------------------|---------------------------------------|
| 06<br>general public | Unsolicited information received from |
| 18                   | Other                                 |

---

SOURCE: Internal Revenue Manual, Case Management and Time Reporting System Handbook, IRM9570 (MT 9570-16, September 29, 1978), Exhibit 400-1 (20).

TABLE D.6

CODES TO RECORD STATUS CHANGES  
IN CRIMINAL INVESTIGATION CASES

Up to 20 Status Code Changes Retain  
on Case History Record

---

<u>Level</u>	<u>Status with Level</u>
IRS District Investigation	01 Under Investigation (initial)
	02 Discontinued Investigation
	03 Non-Prosecution
	04 Insufficient Resources
	05 Direct Referral to U.S. Attorney
	06 To District Counsel
	07 District Protest Case <sup>1</sup>
IRS District Counsel Review	10 Supplemental Investigation Requested
	11 Supplemental Investigation Completed
	12 Proposed Criminal Action Memo <sup>1</sup>

- 13 Criminal Action Memo<sup>1</sup>
- 14 To D.J. Criminal Division with  
Pros. Rec.
- 15 To D.J. Tax Division with  
Pros. Rec.
- 16 To D.J. without Pros. Rec.<sup>2</sup>
- 17 To D.J. Nonconcurrency because of  
action in a related case
- 18 Direct referral to U.S. Attorney  
with Pros. Rec.
- 19 Direct Referral to U.S. Attorney  
Nonconcurrency because of action  
in a related case

US Department  
of Justice  
Review

- 20 Supplemental Investigation  
Requested
- 21 Supplemental Investigation  
Completed
- 22 Prosecution Declined (use with  
status codes 14 or 15)
- 23 Case Not Forwarded (use with  
status codes 16 or 17)
- 24 To U.S. Attorney with Pros. Rec.
- 25 To U.S. Attorney Nonconcurrency  
because of action in a related  
case

U.S. Attorney  
Pretrial  
Results

- 30 Supplemental Investigation  
Requested
- 31 Supplemental Investigation  
Completed
- 32 Information Filed
- 33 Grand Jury Indictment Returned
- 34 No True Bill by Grand Jury
- 35 Guilty Plea
- 36 Not Guilty Plea
- 37 Nolo Contendere Plea
- 38 Prosecution Action Declined  
before Indictment
- 39 Other, Pretrial Diversion

US Attorney  
Trial Results

- 40 Nolle Prosequi After Indictment  
or Information
- 41 Judge Dismissed
- 42 Mistrial, Including Hung Jury
- 43 Judge Guilty

	44	Judge Acquitted
	45	Jury Guilty
	46	Jury Acquitted
Post Trial Results		
Sentencing and		
Appeal	50	Appeal Filed
	51	Appeal Denied
	52	Appeal Granted
	53	Sentenced
Miscellaneous	60	Fugitive
Final Action	99	Final Closure

---

1If the IRS District Counsel disagrees with the prosecution recommendation, District Counsel prepares a Criminal Action Memo (CAM) . The Criminal Investigation district office may protest such action through channels before the CAM becomes final.

2Used in special cases, such as some Strike Force cases, Drug Information Administration cases, and cases made a matter of interest by an Assistant Attorney General in the U.S. Department of Justice, where IRS District counsel does not concur with the prosecution's recommendations.

SOURCE: Internal Revenue Manual, Case Management and Time Reporting System Handbook, IRM9570 (MT 9570-16, September 29, 1978), Exhibit 400-1(40) (B).





## REFERENCES

A Study of the Socioeconomic Impact of Illegal Aliens on the County of San Diego. San Diego, Calif.: County of San Diego Human Resources Agency, nd.

Aaron, Henry J.

Who Pays the Property Tax? A New View. Washington, D.C.: The Brookings Institution, 1975.

Aaron, Henry J., Ed.

Inflation and the Income Tax. Washington, D.C.: The Brookings Institution, 1976.

Alpern, A. F.

"The Taxpayer Compliance Measurement Program: The Backbone of an Audit Selection System. Tax Adviser, (October, 1978), 605-607.

Alton, Lee R.

A History of Regulation Taxation. Lexington, Ky.: University Press of Kentucky, 1973.

American Bar Association -Section of Criminal Justice - Committee on Economic Offenses - Final Report. Prepared by the American Bar Association (Grant No. J-LEAA-0418-76). Submitted to the Law Enforcement Assistance Administration. Washington, D.C.: American Bar Association, 1976.

American Bar Association. Committee on Economic Offenses.

"Income Tax Evasion: Dealing With IRS Special Agents and Prosecutors." Criminal Law Bulletin. X (June, 1974), 437ff.

Anderson, Paul S.

"Currency in Use and in Hoards." New England Economic Review, (March/April, 1977), 21-30.

"The Rise of Currency in Circulation During World War II." The National Banking Review, (March, 1966), 359-367.

Argo, David T.

"White Collar Crime: We Cannot Afford It" Government Accountants Journal. XXVII (Spring, 1978), 53-57.

Balter, Harry Graham.

Tax Fraud and Evasion. 4th ed. Boston, Mass.: Warren, Gorham & Lamont 1976.

"Plea Bargaining and the Tax Fraud Syndrome." Taxes, LII (June, 1974), 333ff.

Barr, Richard S., and Turner, J. Scott.

"A New Linear Programming Approach to Microdata File Merging." 1977 Compendium of Tax Research. Sponsored by the U.S. Department of the Treasury. Washington, D.C.: U.S. Government Printing Office, 1978.

Barton, Walter E. and Browning, Carroll W.

Federal Income and Estate Tax Laws: Correlated and Annotated. 192S:WDC John Byrne & Co.

Bequai, August.

White-Collar Crime - A 20th Century Crisis. Lexington, Mass.: Lexington Books, 1978.

Bergsman, Anne.

Creation Of The OTA 1975 Tax Model/SIE Match File with Documentation of the 1975, 1978, and 1982 OTA Sample SIE Files. Submitted to the U.S. Department of the Treasury. Washington, D.C.: The Hendrickson Corporation, 1978.

Biderman, Albert D., and Reiss, Albert J., Jr.

"Definitions and Criteria for a Selection of Prospective Federal Sources of White-Collar Data." Submitted to the National Institute of Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration. BSSR 0003-70. Washington, D.C.: Bureau of Social Science Research, 1979.

Bittker, Boris I. and Eustice, James S.

Federal Income Taxation of Corporations and Shareholders. 2nd ed. Branford, Conn.: Federal Tax Press, Inc., 1966.

Bittker, Boris I. and Stone, Lawrence M.

Federal Income Estate and Gift Taxation. 4th ed. Boston: Little, Brown and Company, 1972.

Bixby, Lenore Epstein, et al.

"Demographic and Economic Characteristics of the Aged: the 1968 Survey of the Aged." Social Security Research Administration, Research Report No. 45, 1975.

Blakey, Roy G., and Blakey, Gladys C.

The Federal Income Tax. New York: Longmans, Green and Co., 1940.

Blough, Roy.

The Federal Taxing Process. New York: Prentice-Hall, 1952.

Blum, Walter J. and Kalven, Harry, Jr.

The Uneasy Case for Progressive Taxation. Chicago: The University of Chicago Press, 1953.

Bowe, Richard W.

"Miranda and the IRS: Protecting the Taxpayer by Administrative Due Process." American University Law Review, XXIV (Spring, 1975), 751-796.

Brandon, Robert M.; Rowe, Jonathan; and Stanton, Thomas H.

Tax Politics: How They Make You Pay and What You Can Do About It. New York: Pantheon Books, 1976.

Brannon, Gerard Marion.

The Federal Revenue System. New York: General Learning Press, 1971.

Break, George F.

"Income Taxes and Incentives to Work: An Empirical Study." The American Economic Review, XLVII (September, 1957), 529-549.

Break, George F. and Pechman, Joseph A.

Federal Tax Reform: The Impossible Dream? Washington, D.C.: The Brookings Institution, 1975.

Brewster, Kingman.

Distraint Under the Federal Revenue Laws. Scotus Series. Washington, D.C.: National Law Book Company, 1937.

British Columbia Department of the Attorney-General.

Organized Crime in British Columbia--Second Findings Report. Victoria, B.C.: British Columbia Department of the Attorney-General, 1975.

Brittain, John A.

Inheritance and the Inequality of Material Wealth. Washington, D.C.: The Brookings Institution, 1978.

The Inheritance of Economic Status. Washington, D.C.: The Brookings Institution, 1977.

The Payroll Tax for Social Security. Washington, D.C.: The Brookings Institution, 1972.

Buckler, Warren and Smith, Creston.

"The Continuous Work History Sample (CWHHS): Description and Contents." Paper presented at the First Conference on the Policy Issues of Social Security Research Files, Williamsburg, Va., March, 1978.

Bustamante, Jorge A.

"Undocumented Immigration for Mexico: Research Report." International Migration Review, XI (1977), 149-177.

Butler, Harry Graham.

Tax Fraud and Evasion: A Guide to Civil and Criminal Practice Under Federal Law. 4th ed. Boston: Warren, Gorham & Lamont, 1976.

Cagan, Phillip.

Determinants and Effects of Change in the Stock of Money, 1875-1960. New York: National Bureau of Economics, 1965. Distributed by Columbia University Press.

"The Demand For Currency Relative to the Total Money Supply." The Journal of Political Economy, (August, 1958), 303-328.

Cannon, Lou.

"Three Cheers for Illegal Aliens: They Contribute Far More to This Country Than They Get Back." Washington Post, (August 5, 1979), B1, B3.

Caplin, Mortimer.

"The I.R.S., Racketeers, and White-collar Crime."  
American Bar Association Journal, LXII (July, 1976),  
865-867.

Chommie, John C.

The Internal Revenue Service. Praeger Publishers, 1970.

Clarke, M.J.

"White Collar Crime, Occupational Crime and Legitimacy."  
International Journal of Criminology and Penology, VI  
(May).

Clinard, Marshall B.

"Criminological Theories of Violations of Wartime  
Regulations." White-Collar Criminal - The Offender in  
Business and the Professions. Edited by Gilbert Geis.  
New York: Atherton Press, 1968.

Cochran, William G.

Sampling Techniques. 3rd ed. New York: John Wiley and  
Sons, Inc., 1977.

Comer, M.J.

Computer Fraud. Highstown, N.J.: McGraw Hill, 1977.

Commission of Enquiry into the Administration of Justice on  
Criminal and Penal Matters in Quebec.

Crime, Justice and Society, Vol. 3--Crime in Quebec,  
Tome 3--Organized Crime. Quebec: Roch Lefebvre, nd.

Conference on Tax Research 1975. Sponsored by the Office of  
Tax Analysis Department of the Treasury, July 17 and 18,  
1975. Washington, D.C.: U.S. Government Printing  
Office, 1975.

Consumerism at the Crossroads: A National Opinion Research  
Survey of Public, Activist, Business and Regular  
Attitudes Toward the Consumer Movement. Conducted for  
Sentry Insurance by Louis Harris and Associates, Inc.  
and Marketing Science Institute, A Non-Profit Research  
Organization Associated With the Harvard Business  
School. Stevens Point, Wisc.: Sentry Insurance, n.d.

Cook, Joseph R., Dubroff, Harold, and Grossman, Dan S.

"The United States Tax Court: An Historical Analysis."  
Albany Law Review, XL-XLII.

Cook, Peter K.

"Estimating the Failure Rate of a Unique Identifier Match Procedure Using Social Security Numbers." Presented at the First Conference on the Policy Uses of Social Security Research Files, Williamsburg, Virginia, March 1978.

Cooper, George.

A Voluntary Tax? New Perspectives on Sophisticated Estate Tax Avoidance. Washington, D.C.: The Brookings Institution, 1979.

"Criminal Law - Income Tax Investigation - Miranda Warning Not Required Prior to Non-Custodial Interview with IRS Agents. Beckwith v. United States, 96 S. Ct. 1612 (1976)." Dickinson Law Review, LXXXI (Winter, 1977), 368-374.

Danziger, Sheldon and Kesserman, Jonathan.

"Personal Exemption and Per Capita Credits on the U.S. Income Tax." University of Wisconsin Institute for Research on Poverty Discussion Paper 271-75.

Dennis, E.E.

"Leaked Information as Property - Vulnerability of the Press to Criminal Prosecution." Saint Louis University Law Journal, XX (1976), 610-624.

"Department of Justice - Internal Revenue Service: Guidelines Regarding Cooperation in Joint Investigations." Enforcement Journal, XV (Jan/Mar, 1976), 16, 22-23.

Diogenes.

The April Game: Secrets of an Internal Revenue Agent. Chicago: Playboy Press, 1973.

Donaldson, J. Bruce.

"The Commissioner's Enforcement Policies." In Tax Filing. Edited by G. W. Holmes and J. L. Cox. Ann Arbor, Mich.: Institute of Continuing Legal Education, 1973.

Doris, Lillian, Ed.

The American Way in Taxation: Internal Revenue 1862-1963. Englewood Cliffs, N. J.: Prentice-Hall, 1963.

Douglas, C.H.

"White Collar Crime - Proposed Solution." Police Law Quarterly, VII (January, 1978), 11-18.

Duncan, Joseph W. and Shelton, William C.

Revolution in United States Government Statistics, 1926-1976. Washington, D.C.: U.S. Department of Commerce, Office of Federal Statistical Policy and Standards, 1978.

Edelhertz, Hebert.

The Nature, Impact and Prosecution of White-Collar Crime. Prepared by the National Institute of Law Enforcement and Criminal Justice, Law Enforcement Assistance Administration. ICR 70-1. Washington, D.C.: U.S. Government Printing Office, 1975.

Edelhertz, Herbert et al.

The Investigation of White-Collar Crime. Washington, D.C.: U.S. Government Printing Office, 1977.

Eisenstein, Louis.

"The Rise and Decline of the Estate Tax." Tax Law Review, XI (March, 1956), 223-259.

Enrick, Norbert Lloyd.

An Investigation of Some Aspects of Income Tax Consciousness. Doctoral dissertation, University of Virginia, 1963.

"A Pilot Study of Income Tax Consciousness." National Tax Journal, XVI (1963), 169-173.

Estey, John S. and Marston, David W.

"Pitfalls (and Loopholes) in the Foreign Bribery Law." Fortune, XLVIII (October 9, 1978), 182-184, 188.

Eustice, James S.

Federal Income Taxation of Corporations and Shareholders. 1969 Supplement, No. 2. Branford, Conn.: Federal Tax Press, Inc., 1969.

Farioletti, Marius.

"Tax Administration Funding and Fiscal Policy." National Tax Journal, XXVI (March, 1973), 1-16.

"From the Thoughtful Tax Man." Taxes - The Tax Magazine, (February, 1966), 66-70.

"Some Income Adjustment Results from the 1949 Audit Control Program." Studies in Income and Wealth, XXIII (1958), 239-271.

"Some Results from the First Year's Audit Control Program of the Bureau of Internal Revenue." National Tax Journal, (March, 1952).

Farioletti, Marius and Sze, Albert Y.

"Individual Taxpayer Compliance Trends and Federal Income Tax Administration." An unpublished paper, nd.

Feige, Edgar L.

"How Big Is the Irregular Economy?" Challenge, (November/December, 1979), 5-13.

Ferman, Louis A.

"Remarks Delivered Before the National Commission on Unemployment and Employment Statistics on June 13, 1978." Unpublished paper of the Institute of Labor and Industrial Relations, The University of Michigan and Wayne State University.

Ferman, Louis A.; Berndt, Louise; and Selo, Elaine.

Analysis of the Irregular Economy: Cash Flow in the Informal Sector. Prepared by the Institute of Labor and Industrial Relations, The University of Michigan-Wayne State University. Submitted to the Bureau of Employment and Training, Michigan Department of Labor. Ann Arbor: Institute of Labor and Industrial Relations, 1978.

Flash, Edward S., Jr.

Economic Advice and Presidential Leadership: The Council of Economic Advisers. New York: Columbia University Press, 1965.



Frank, Max and Dekeyser-Meulders, Daniele.

"A Tax Discrepancy Coefficient Resulting from Tax Evasion or Tax Expenditures." Journal of Public Economics, VIII, 67-78.

Garcia, Gillian.

"The Currency Ratio and the Subterranean Economy." Financial Analysts Journal, (November/December, 1978), 64-66.

Garcia, Gillian and Pak, Simon.

"The Ratio of Currency to Demand Deposits in the United States." Research Program in Finance, Working Paper Services No. 69. Institute of Business and Economic Research, University of California at Berkeley, May, 1978.

Goldfeld, Stephen M.

"The Case of the Missing Money." Brookings Papers on Economic Activity, III (1976), 683-739.

Goldsmith, Selma F.

"The Relation of Census Income Distribution Statistics to Other Income Data." Studies in Income and Wealth, XXIII (1958).

"Appraisal of Basic Data Available for Construction Income Size Distributions." in Studies in Income and Wealth, 13, New York, National Bureau of Economic Research, 1951.

Goldstein, Gersham.

Index to Federal Tax Articles. Boston, Mass.: Warren, Gorham and Lamont, 1976.

Goode, Richard.

The Individual Income Tax. Revised Edition. Washington, D.C.: The Brookings Institution, 1976.

The Corporate Income Tax. New York: John Wiley & Sons, Inc., 1951.

Gottheimer, Debra.

"Those Hidden 'Opportunities' for Computer Crime." Administrative Management, XXXIX (January, 1978), 65, 66, 68, 72, 74, 76, 78.

Groves, H.M.

"Empirical Studies of Income Tax Compliance." National Tax Journals, (1958), 11, 291-301.

Guen, William Raymond.

The Theory and Practice of Modern Taxation. New York, CCH, 1938.

Gutkin, Sidney A. and Beck, David.

Tax Avoidance vs. Tax Evasion. New York: The Ronald Press Company.

Gutmann, Peter M.

"Statistical Illusions, Mistaken Policies." Challenge, (November/December, 1979), 14-17.

"Professor Gutmann Replies." Financial Analysts Journal, (November/December, 1978), 67-69.

"The Subterranean Economy." Financial Analysts Journal, (November/December, 1977), 26-27, 34.

H&R Block, Inc.

The American Public and The Income Tax System: The Second in a Series of Studies of Public Attitudes Toward the Federal Income Tax System, Volume I: Summary Report. Conducted by the Roper Organization Inc., July 1978. Kansas City, Missouri: H&R Block, Inc., 1978.

The American Public and the Income Tax System: A study of Public Attitudes Toward the Federal Income Tax System, Volume I: Summary Report. Conducted by the Roper Organization Inc., July 1977. Kansas City, Missouri: H&R Block, Inc., 1977.

Hagan, Stephen W.

When the Tax Man Calls: A Story of One Man's Ordeal with the Internal Revenue Service. New York: Exposition Press, 1968.

Hawkins, Claude.

"Criminal Prosecution of Federal Tax Return Preparers." Arkansas Law Review, XXX (Winter, 1977), 512-526.

Henkel, Lee H., Jr. (Chief Counsel, IRS)

"Government Problems in Dealing with Tax Fraud." In Tax Filing. Edited by G.W. Holmes and J.L. Cox. Ann Arbor, Mich.: Institute of Continuing Legal Education, 1973.

Henrichs, John C.

"The Relationship Between Personal Income and Taxable Income." In Survey of Current Business, February 1975, Vol. 55.

Henry, J. S.

"The Currency Connection: A Modest Proposal for Attacking Crime in America." Harvard University, January, 1976.

Hermann, Donald H.J.

"Conspiracy, The Business Enterprise, White Collar Crime and Federal Prosecution: A Primer for Practice." Creighton Law Review, IX (June, 1976), 647-676.

Hohenstein, Henry J.

The IRS Conspiracy. Los Angeles, Calif.: Nash Publishing, 1974.

Holland, Daniel M. and Kahn, C. Harry.

"Comparison of Personal and Taxable Income." Federal Tax Policy for Economic Growth and Stability. Joint Committee on the Economic Report, 1955, 337-338.

Huffman, William F.; Starnes, Ralph A.; and Van Sanford, Gordon M.

U.S. Tax Court Practice and Procedure Guide. Charlottesville, Va: The Miche Company, 1975.

Iazo, H.

"Scrip and Barter: Their Use and Their Service." Washington, D.C.: Department of Treasury, 1933.

Illinois Legislative Investigating Committee.

Illicit Traffic on Stolen Securities - A Report to the Illinois General Assembly. Chicago, Ill.: Illinois Legislative Investigating Committee, 1973.

"Income Tax Evasion: Dealing with IRS Special Agents and Prosecutors." XX Criminal Law Bulletin, (June, 1974), 437ff.

Kahn, C. Harry.

Employee Compensation Under the Income Tax. New York: National Bureau of Economic Research, 1968. (Distributed by Columbia University Press.)

Business and Professional Income Under the Personal Income Tax. New York: National Bureau of Economic Research, 1964. (Published by University of Princeton Press.)

Personal Deductions in the Federal Income Tax. Princeton University Press for the National Bureau of Economic Research, 1960.

Katz, Daniel, et al.

Bureaucratic Encounters: A Pilot Study in the Evaluation of Government Services. Ann Arbor: Survey Research Center, Institute of Social Research, University of Michigan, 1975.

Kaufman, George G.

"The Demand for Currency." Staff Economic Studies, Washington, D.C.: Board of Governors of the Federal Reserve System, 1965.

Kaufman, Herbert.

Red Tape: Its Origins, Uses, and Abuses. Washington, D.C.: The Brookings Institution, 1977.

Keely, Charles B.

U.S. Immigration: A Policy Analysis. New York, The Population Council, 1979.

Kilss, Beth and Scheuren, Frederick J.

"The 1973 CPS-IRS-SSA Exact Match Study." Social Security Bulletin, XLI (October, 1978), 14-22.

Kimmel, Lewis H.

Federal Budget and Fiscal Policy 1789-1958. Washington, D.C.: The Brookings Institution, 1959.

Klein, Fredrick C.

"American Hold Increasing Amounts of Cash Despite Inflation and Other Drawbacks." Wall Street Journal, (July 5, 1979), 28.

Kohm, Serge-Christophe.

"A Note on Optimum Tax Evasion." Journal of Public Economics II, 265-270.

Korns, Alexander.

"Coverage Issues Raises by Comparisons of CPS and Establishment Employment." Paper presented before the 1977 meeting of the American Statistical Association.

Kostelanetz, Boris and Bender, Louis.

Criminal Aspect of Tax Fraud Cases. Philadelphia: Joint Committee on Continuing Legal Education of the American Law Institute and the American Bar Association, 1957.

Larson, Martin A.

Tax Rebellion USA. Washington, D.C.: Liberty Lobby, 1973.

Laurent, Robert D.

"Currency and the Subterranean Economy." Economic Perspectives, Federal Reserve Bank of Chicago, (March/April, 1979).

"Currency in Circulation and the Real Value of Notes." Journal of Money, Credit and Banking, (May, 1974), 213-226.

"Currency Transfer by Denomination." Doctoral Dissertation, Department of Economics, University of Chicago, December, 1970.

LaFave, Wayne R. and Scott, Austin W., Jr.

Handbook on Criminal Law. St. Paul, Minn: West Publishing Co., 1972.

Lenhart, Harry A., Jr.

"How Tax Cheaters Get Away With Billions." U.S. News and World Report, (March 27, 1978), 102-105.

Leonard, W.N. and Weber, M.G.

"Automaker and Dealers - A Study of Criminogenic Market Forces." White-Collar Crime - Offenses in Business, Politics, and the Professions. Edited by Gilbert Geis and Robert F. Meier. Revised edition. New York: Free Press, 1977.

Lofts, Robert L. and Lofts, Nancy C.

"Tax Crimes: Evasions of Another's Tax and Defenses." Tax Management, (1973).

Long, Susan B.

"Growth in the Underground Economy? An Empirical Issue." Paper presented at the Conference on White Collar and Economic Crime: Trends and Problems in Research and Policy; Multidisciplinary and Cross-National Perspectives. Sponsored by the International Sociological Association, Research Committee for the Sociology of Deviance and Control. Held at State University of New York College, Potsdam, February 7, 1980.

Lynch, John Kennedy.

"Basic Criminal Penalties." In Tax Filing. Edited by G.W. Holmes and J.L. Cox. Ann Arbor, Mich.: Institute of Continuing Legal Education, 1973.

Magill, Rosewell Foster.

The Impact of Federal Taxes.. New York: Columbia University Press, 1943.

Mason, Robert and Calvin, Lyle D.

"A Study of Admitted Income Tax Evasion." Law and Society Review, XIII (Fall, 1978), 73-89.

Massey, Douglas S.

"Hordes of 'Illegals'? No." The New York Times, (May 31, 1979).

McDaniel, Paul R.

"Institutional Procedures for Congressional Review of Tax Expenditures." Tax Notes, (May 28, 1979), 659-664.

McDonald, Stephen L.

"Some Factors Affecting the Increased Relative Use of Currency Since 1939." The Journal of Finance, (September, 1956), 313-327.

McLure, Charles E., Jr.

Must Corporate Income Be Taxed Twice? Washington, D.C.: The Brookings Institution, 1979.

McPheters, Lee R.

"The Demand For Large Denomination Currency: An Empirical Analysis." Unpublished paper, Bureau of Business and Economic Research, Arizona State University, 1979.

Mertens, Jacob Jr.

The Law of Federal Income Taxation, 1976. Revised Vol. 10. Chicago: Callaghan & Co., 1976.

Michael, James R. with Fort, Ruth C.

Working of the System: A Comprehensive Manual for Citizen Access to Federal Agencies. Prepared by Ralph Nader's Center for Study of Responsive Law.

Molefsky, Barry.

"The Underground Economy: An Overview." The Library of Congress, Congressional Research Service, August 2, 1979.

Moskowitz, Daniel A.

"IRS as Social Arbiter." Change, (April, 1979), 46-47.

Mueller, Eva.

"Public Attitudes Toward Financial Programs," Quarterly Journal of Economics. LXXVII (1963), 210-235.

National Academy of Public Administration.

Planning and Analysis Concerning the Intelligence Function of the Internal Revenue Service. Washington, D.C.: National Academy of Public Administration, 1978.

National Commission for Manpower Policy.

Manpower and Immigration Policies in the United States.  
Washington, D.C.: U.S. Government Printing Office,  
1978.

National District Attorneys Association.

The Prosecutor's Manual on Economic Crime: A Special Criminal Justice Improvement Publication of the National District Attorneys Association. Washington, D.C.: National District Attorneys Association, 1977.

Neuman, Fredrick.

"How DCAA Views its Responsibility for Fraud Detection."  
Government Accountants Journal. XXVII (Spring, 1978),  
1-6.

North, David S.

Interactions Between Illegal Alien Respondents and the Social Security Tax Collection System: Some Preliminary Findings. Prepared by the New TransCentury Foundation. Submitted to the Social Security Administration. Washington, D.C.: New TransCentury Foundation, 1976.

North David S. and Houstoun, Marion F.

The Characteristics and Role of Illegal Aliens in the U.S. Labor Market: An Exploratory Study (A Summary of the Findings). Prepared by Linton & Company, Inc. under Contract No. 20-11-74-21. Submitted to the Employment and Training Administration, Department of Labor. Washington, D.C.: Linton & Company, Inc., 1976.

Okun, Arthur M. and Perry, George L., Eds.

Curing Chronic Inflation. Washington, D.C.: The Brookings Institution, 1978.

Opinion Research Corporation.

The Public's Interest in Free IRS Income Tax Return Preparation. Research Findings Prepared for Internal Revenue Service. Princeton, N. J.: Opinion Research Corporation, 1978.



Orange County Task Force on Medical Care for Illegal Aliens.

The Economic Impact of Undocumented Immigrants on Public Health Services in Orange County: A Study of Medical Costs, Tax Contributions, and Health Needs of Undocumented Immigrants. Final Report presented to the Board of Supervisors. Calif.: Orange County Task Force on Medical Care for Illegal Aliens, 1978.

Overly, D. H. and Schell, T. H.

Michigan--Evaluation of the OCJP (Office of Criminal Justice Programs) Organized Crime Program and Recommendation for Continuation, Vol. 2 Guidelines for Development of a Analytical System for State-Wide Planning, Evaluation, Etc. Prepared by the University City Science Center. Submitted to the Michigan Office of Criminal Justice Programs. Rockville, Md.: NCJRS Microfiche Program, 1973.

Owens, James.

"The IRS Information Returns Program." The Tax Adviser, (June, 1978).

Parker, D.B.

"Computer Abuse Perpetrators and Vulnerabilities of Computer Systems." Prepared by the Stanford Research Institute (Grant No. MCS76-09183). Submitted to the National Science Foundation, 1975.

Computer Abuse. Prepared by Stanford Research Institute, under Grant No. G1-37226. Submitted to the National Science Foundation. Springfield, Va.: National Technical Information Service, 1973.

Paul, Randolph E.

Taxation in the United States. Boston: Little, Brown and Company, 1954.

Paulus, John, and Axilrod, Stephen H.

"Recent Regulatory Changes and Financial Innovations Affecting the Growth of the Monetary Aggregates." Washington D.C.: Federal Reserve Board, November, 1976.

Pechman, Joseph A.

Federal Tax Policy . 3rd ed. Washington, D.C.: The Brookings Institution, 1977.

"Distribution of Federal and State Income Taxes by Income Classes." The Journal of Finance, XXVII (May, 1972), 179-191.

Pechman, Joseph, Ed.

Setting National Priorities: The 1980 Budget. Washington, D.C.: The Brookings Institution, 1979.

Comprehensive Income Taxation. Washington, D.C.: The Brookings Institution, 1977.

Pechman, Joseph A. and Okner, Benjamin A.

Who Bears the Tax Burden. Washington, D.C.: The Brookings Institution, 1974.

"Individual Income Tax Erosion by Income Classes." In The Economics of Federal Subsidy Programs, A Compendium of Papers submitted to the Joint Economic Committee, Part 1, General Study Papers, 92nd Cong., 2d sess., (1972), 13-40.

Pechman, Joseph A. and Timpane, P. Michael, Eds.

Work Incentives and Income Guarantees: The New Jersey Negative Income Tax Experiment. Washington, D.C.: The Brookings Institution, 1975.

Pechman, Joseph A.; Aaron, Henry J.; and Taussig, Michael K.

Social Security: Perspectives for Reform. Washington, D.C.: The Brookings Institution, 1968.

Pitts, Ted.

"Fifth Amendment Interpretation in Recent Tax Record Production Cases." University of Cincinnati Law Review, XLIV (1977), 232-242.

Ponder, Lester M.

United States Tax Court Practice and Procedure. Englewood Cliffs, N. J.: Prentice-Hall, Inc.

Porter, Richard D.

"Some Notes on Estimating the Underground Economy." Board of Governors of the Federal Reserve System, August 10, 1979.

Porter, Richard D., and Mauskopf, Eileen.

"Some Notes on the Apparent Shift in the Demand for Demand Deposits Function." Board of Governors of the Federal Reserve System, May, 1978.

Porter, Richard D., and Thurman, Stephen S.

"The Currency Ratio and the Subterranean Economy: Additional Comments." Board of Governors of the Federal Reserve System, January 26, 1979.

Portes, Alejandro.

"Illegal Immigration and the International System: Lessons From Recent Legal Mexican Immigrants to the United States." Social Problems, XXVI (April, 1979), 425ff.

President's Commission on Law Enforcement and Administration of Justice.

Task Force Report: Crime and Its Impact -- An Assessment. Washington, D. C.: U.S. Government Printing Office, 1967.

Raby, William L. and Riblet, Carl, Jr.

The Reluctant Taxpayer. - New York: Cowles Book Co., Inc., 1970.

Ratner, Sidney.

Taxation and Democracy in America. New York: John Wiley & Sons, Inc., 1967.

American Taxation, Its History or Social Force in Democracy. New York: W. W. Norton & Co., Inc., 1942.

Rice, R.

Business of Crime. Westport, Conn.: Greenwood Press, 1956.

Roberts, Richard M. and Durney, Michael C.

"Tax Fraud - The Major New Developments and What They Mean." Practical Accountant, X (September/October, 1977), 63-73.

Rosett, Arthur and Cressey, Donald R.

Justice by Consent: Plea Bargains in the American Courthouse. Philadelphia: J. B. Lippincott Company, 1976.

Ross, Irwin.

"Why the Underground Economy is Booming." Fortune, XLVIII (October 9, 1978), 92-95, 98.

Roth, Jeffrey A. and Ekstrand, Laurie E.

"Targeting Tax Law Enforcement: Some Preliminary Qualitative Results." Paper presented at the American Criminology Society Annual Meeting, Philadelphia, Pennsylvania. November 10, 1979. Prepared by Westat, Inc. supported by the Internal Revenue Service (Contract TIR-78-50).

Rothblatt, Henry B.

"Income Tax Evasion: Dealing With the IRS Special Agents and Prosecutor." Criminal Law Bulletin, X (June, 1974), 437-442.

Rutkin, Sydney A. and Beek, David.

Tax Avoidance vs. Tax Evasion. New York: Rinald Press Co., 1958.

Schmeckebier, Laurence F. and Eble, Francis X. A.

The Bureau of Internal Revenue. Baltimore, Md.: Johns Hopkins Press, 1923.

Schnepper, Jeff A.

Inside IRS: How Internal Revenue Works (You Over). New York: Stein and Day, 1978.

Schwartz, Richard D.

"Field Experimentation in Sociolegal Research." Journal of Legal Education, XIII (1961), 401-410.

"The Effectiveness of Legal Controls: Factors in the Reporting of Minor Items of Income on Federal Income Tax Returns." Unpublished paper.

Schwartz, Richard D. and Orleans, Sonya.

"On Legal Sanctions." University of Chicago Law Review, XXXIV (1967), 274-300.

Schwartz, Richard D. and Skolnick, J. H.

"Plan 9. Televised Communication and Income Tax Compliance." Television and Human Behavior: Tomorrow's Research in Mass Communication. Edited by Leon Arons and Mark A. May. New York: Appleton-Century-Crofts, 1963. pp155-165.

Scott, Ian R.

"Criminal Prosecution in England and Wales." The Justice System Journal: A Management Review, III (Fall, 1977), 38-49.

Seligman, Edwin R.A.

"Income Taxes." Encyclopedia of the Social Sciences, Macmillan, 1932, Vol. 7, 626-639.

The Income Tax: A Study of the History, Theory, and Practice of Income Taxation at Home and Abroad. 2nd ed. New York: The Macmillan Company, 1921.

Seltzer, Lawrence H.

The Personal Exemptions in the Income Tax. New York: National Bureau of Economic Research, 1968.

Shapiro, S.

"The Disposition of White-Collar Illegalities: Prosecutorial Alternatives in the Enforcement of the Securities Laws." Paper presented at the Annual Meeting of the American Sociological Association, San Francisco, California, 1978.

"Background Paper on White Collar Crime - Considerations of Conceptualization and Future Research." Prepared under Grant No. 75-NI-99-0127. Submitted to the National Institute of Law Enforcement and Criminal Justice, 1976.

Shostak, Arthur B.

Modern Social Reforms: Solving Today's Social Problems. New York: Macmillan Publishing Co., Inc., 1974.

Silk, Leonard.

"The Hidden Economy." The New York Times, (April 27, 1979).

Silverstein, Leonard L., Ed.

Criminal Tax Procedure. Parts I and II. Washington, D.C.: Tax Management, Inc.

Simons, Henry C.

Personal Income Taxation: The Definition as a Problem of Fiscal Policy. Chicago: University of Chicago Press, 1938.

Statistics of Income 1916-1923 1947-1976, 1977 (prel.)

Stern, Philip M.

The Rape of the Taxpayer. New York: Vintage Books, 1974.

Stevenson, C.

"Arson-to-Order in the Building Trades." Reader's Digest, CVIII (March, 1976), 85-90.

Stocker, Fredrick D. and Ellicikson, John C.

"How Fully Do Farmers Report Their Income?" National Tax Journal, (June, 1959).

Strumpel, Burkhard.

"The Disguised Tax Burden Compliance Costs of German Businessmen and Professionals." National Tax Journal, XIX (1966), 70-77.

Surface, William.

Inside Internal Revenue. New York: Coward, McCann & Geohegan, Inc., 1967.

Surrey, Stanley S. and Warren, William C.

Federal Income Taxation: Cases and Materials. University Casebook Series. Brooklyn, New York: The Foundation Press, Inc., 1960.

Sze, Albert Y.

"Audit ADP Applications, Featuring the Discriminant Function System." Unpublished Internal Paper of IRS, undated.

"The Fast Growth of the Underground Economy." Business Week, (March 13, 1978), 73-74, 77.

"The Underground Economy." Newsweek, April 10, 1978, pp. 35-36.

Tilzer, Ira L.

"Government's Use of 7206(1) as an Alternative Criminal Tax Charge on the Increase." Journal of Taxation, XLVIII (April, 1978), 238-240.

Tissue, Thomas.

"The Survey of the Low-Income Aged and Disabled: An Introduction." Social Security Bulletin, (February, 1977).

Twentieth Century Fund Committee on Tax Change.

Facing the Problem: A Survey of Taxation in U.S. and a Program for the Future. New York: Twentieth Century Fund, Inc., 1937.

U.S. Commission on Federal Paperwork.

Final Summary Report. Washington, D.C.: U.S. Government Printing Office, 1977.

U.S. House of Representatives

Federal Paperwork Jungle. H. Report 52, 89th Congress, 1st Session.

Securities Acts Amendments of 1975 - Oversight. Hearings Before the Subcommittee on Oversight and Investigations and the Subcommittee on Consumer Protection and Finance of the Committee on Interstate and Foreign Commerce. 95th Cong., 1st sess., 1977. Washington, D.C.: U.S. Government Printing Office, 1978.

U.S. Congress. House. Committee on Government Operations.

Freedom of Information Act Requests for Business Data and Reverse-FOIA Lawsuits. H. Rept. 95-1382, 95th Cong., 2d sess., 1978.

U.S. Government Information Policies and Practices--Administration of the Freedom of Information Act. Hearings before the Subcommittee on Foreign Operations and Government Information, 92nd Cong., 2d sess.

U.S. Congress. House. Committee on Interstate and Foreign Commerce.

Securities and Exchange Commission - Authorization. Hearings Before the Subcommittee on Consumer Protection and Finance of the Committee on Interstate and Foreign Commerce, House of Representatives, 95th Cong., 2nd sess., 1978.

U.S. Congress. House. Committee on the Judiciary.

Illegal Aliens and Alien Labor: A Bibliography and Compilation of Background Materials (1970-June 1977). Prepared at the Request of the Committee of the Judiciary, U.S. House of Representatives by the Congressional Research Service, Library of Congress. Committee Print No. 9. 95th Cong., 1st sess. Washington, D.C.: U.S. Government Printing Office, 1977.

Statement of Information. Hearings before the Committee on the Judiciary, House of Representatives. 93rd Cong., 2d sess. Pursuant to H. Res. 803 A Resolution Authorizing and Directing the Committee of the Judiciary to Investigate Whether Sufficient Grounds Exist for the House of Representatives to Exercise its Constitutional Power to Impeach Richard M. Nixon, President of the United States of America. Book VIII, Internal Revenue Service. Washington, D.C.: U.S. Government Printing Office, 1974.

U.S. Congress. House. Committee on Ways and Means.

Tax Revision Compendium: Compendium of Papers on Broadening the Tax Base. Submitted to the Committee on Ways and Means in Connection with the Panel Discussions on the same Subject to be Conducted by the Committee on Ways and Means beginning November 16, 1959, Vol. 2. Washington, D.C.: U.S. Government Printing Office, 1959.

U.S. Congress. Joint Economic Committee.

The Federal Tax System: Facts and Problems, 1964. Materials Assembled by the Committee Staff for the Joint Economic Committee, Congress of the United States. 88th Congress, 2nd Session, 1964. Washington, D.C.: U.S. Government Printing Office, 1964.



U.S. Congress. Senate.

Report on Administrative Procedures of the Internal Revenue Service, October 1975 to the Administrative Conference of the United States. Senate Document 94-266. 94th Cong., 2d sess.

U.S. Congress. Senate. Committee on Governmental Affairs.

U.S. Congress. Senate Committee on the Judiciary.

IRS Disclosure. Hearings before the Subcommittee on Administrative Practice and Procedure of the Committee on the Judiciary. 93rd Congress, 2d session. Washington, D.C.: U.S. Government Printing Office, 1974.

U.S. Congress. Senate.

Hearings before the Subcommittee on the Treasury, Committee on Appropriations; various issues, particularly 93rd Congress, 1st Session (on "Internal Revenue Service: Taxpayer Assistance and Compliance Programs") and 81st Congress, 1st Session.

U.S. Department of Commerce.

Survey of Current Business. (June 1978).

The National Income and Product Accounts of the United States, 1929-74: Statistical Tables. A Supplement to the Survey of Current Business. Washington, D.C.: U.S. Government Printing Office, 1977.

U.S. Department of Commerce. Bureau of the Census.

Historical Statistics of the United States, Colonial Times to 1970. Washington, D.C.: U.S. Government Printing Office, 1975.

U.S. Department of Justice.

"Internal Revenue Service Guidelines Regarding Cooperation in Joint Investigations." Enforcement Journal, Journal of the National Police Officers Association of America, XV (Jan/March, 1976), 16, 22-23.

Sourcebook of Criminal Justice Statistics, 1975-1978.

U.S. Department of the Treasury. Internal Revenue Service.

"Sample Design Methodology." Unpublished Internal Paper.

Estimates of Income Underreported on Individual Income Tax Returns. Pub. 1104(9-79).

"Computer Selection of IMF TCMP Sample." Unpublished Internal Paper.

The Audit Control Program. nd

Annual Report of the Commissioner, 1862-1979.

"Study on Redefinition of Examination Classes." Internal IRS Briefing Paper, nd.

Planning Model Study Interim Report, 8-78

"Task Force Report on Civil Fraud and Penalty," 1974

"Background and Documentation of the Discriminant Function Technique." Internal Revenue Service Discriminant Function Task Force Report (April, 1967).

"Selection Report on District Returns Selection," Internal Revenue Service Task Force Report. February 2, 1977.

ADP in IRS. Training 2426-01 (Rev. 5-75). Washington, D.C.: U.S. Government Printing Office, 1975.

Internal Revenue Manual, issues 1952-1979.

Integrated Data Retrieval System. Publication 785 (rev. 1-76). Washington, D.C.: Dept. of the Treasury, 1976.

Statistics of Income, Individual Income Tax Returns, 1916-1976, 1977 (prelim.)

Student Guide: Special Agent Training Program, Wilfulness. Washington, D.C.: Internal Revenue Service, nd.

Student Guide: Special Agent Training Program, Wilfulness. Washington, D.C.: Internal Revenue Service, nd.

"Development of DIFS for Two Groups of Districts." Unpublished internal working paper by IRS Joint Planning and Analysis Division and Audit Division, 1974.

U.S. General Accounting Office.

How Taxpayer Satisfaction With IRS' Handling of Problem Inquiries Could Be Increased. Report by the Comptroller General of the United States. GGD-79-74. Washington, D.C.: General Accounting Office, 1979.

Internal Revenue Service Efforts and Plans to Enforce the Employee Retirement Income Security Act. Report by the Comptroller General of the United States. HRD-79-55. Washington, D.C.: General Accounting Office, 1979.

IRS' Audits of Individual Taxpayers and Its Audit Quality Control System Control System Needs to be Better. Washington, D.C.: General Accounting Office, 1979.

IRS Can Improve Its Process For Deciding Which Corporate Returns to Audit. Report to the Congress by the Comptroller General of the United States. GGD-79-43. Washington, D.C.: U.S. Government Printing Office, 1979.

IRS Inspection Service Functions: Management Can Further Enhance Their Usefulness. Report by the Comptroller General of the United States. GGD-78-91. Washington, D.C.: U.S. Government Printing Office, 1979.

IRS Can Better Plan For and Control Its ADP Resources. Report by the Comptroller General of the United States. Report by the U.S. GGD-79-48. Washington, D.C.: General Accounting Office, 1979.

Resources Devoted By The Department of Justice To Combat White-Collar Crime And Public Corruption. Report by the Comptroller General of the United States. GGD-79-35. Washington, D.C.: U.S. Government Printing Office, 1979.

Tax Expenditures: A Primer. PAD 80-26. Washington, D.C.: U.S. General Accounting Office, 1979.

Who's Not Filing Income Tax Returns? IRS Needs Better Ways to Find Them and Collect Their Taxes. GGD-79-69. Washington, D.C.: U.S. Government Printing Office, 1979.

Disclosure and Summons Provisions of 1976 Tax Reform Act--Privacy Gains with Unknown Law Enforcement Effects. Report by the Comptroller General of the United States. GGD-78-110. Washington, D.C.: General Accounting Office, 1978.

Collection Efforts Not Keeping Pace With Growing Number of Defaulted Student Loans. CD-77-1. Washington, D.C.: General Accounting Office, 1977.

Internal Revenue Service's Controls Over The Use Of Confidential Informants: Recent Improvements Not Adequate. Report to the Joint Committee on Taxation, Congress of the United States by the Comptroller General of the United States. GGD-77-46. Washington, D.C.: General Accounting Office, 1977.

Repetitive IRS Audits of Taxpayers are Justified. Report to the Joint Committee on Taxation, Congress of the United States by the Comptroller General of the United States. GGD-77-74. Washington, D.C.: General Accounting Office, 1977.

Administration of Federal Assistance Programs--A Case Study Showing Need For Additional Improvements. Report to the Congress by the Comptroller General of the United States. HRD-76-91. Washington, D.C.: General Accounting Office, 1976.

Audit of Individual Income Tax Returns by the Internal Revenue Service. Report to the Joint Committee on Internal Revenue Taxation, Congress of the United States by the Comptroller General of the United States. GGD-76-54. Washington, D.C.: General Accounting Office, 1976.

Computer-Related Crimes in Federal Programs. Report to the Congress by the Comptroller General of the United States. FGMSD-76-27. Washington, D.C.: General Accounting Office, 1976.

How the Internal Revenue Service Selects Individual Income Tax Returns for Audit. Report to the Joint Committee on Internal Revenue Taxation, Congress of the United States by the Comptroller General of the United States. GGD-76-55. Washington, D.C.: General Accounting Office, 1976.

No Apparent Need to Regulate Commercial Preparers of Income Tax Returns. Report to the Joint Committee on Internal Revenue Taxation, Congress of the United States. Washington, D.C.: General Accounting Office, 1975.

Vito, Natrella.

"Historical and Future Developments of Statistics of Income." American Statistical Association 1966 Proceedings of the Business and Economic Statistics Section, ASA 154-159.

Wade, W.

Industrial Espionage and Mis-Use of Trade Secrets.  
Grossman Publishers, 1970.

Wanger, C. R.

CPA (Certified Public Accountant) and Computer Fraud.  
Lexington, Mass.: Heath Lexington Books, 1979.

Weil, Uric.

"A Note on the Derivation of Income Estimates by Source of Income of Persons Making Less Than \$500 Per Annum, 1944-1948." Journal of the American Statistical Association, XLV (1949), 400.

Wilson, R.

"Corruption and Reform." Police Magazine, II (May, 1979), 6-9.

Woetzel, R. K.

"Organized Crime and Criminal Law Reform." Criminal Justice Planning. Edited by Joseph E. Scott and Simon Dinitz. NCJ 44975. New York: Praeger Publishers, 1977.

Wright, L. Hart.

Needed Changes in Internal Revenue Service Conflict Resolution Procedures. Chicago: American Bar Foundation, 1970.

Yitzhaki, Shlomo.

"A Note on Income Tax Evasion: A Theoretical Analysis." Journal of Public Economics, III, 201-202.

Zeibel, George J.

Federal Law on Consumer Deception: 1973.

