**More people are cheating on their taxes, but fewer are going to jail**

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Taxpayers owe $131 billion to the US government — enough to fund the entire Department of Education for two years.

By now, millions of American households and businesses have filed their 2018 income tax returns.

If [economic forecasts](https://www.cbo.gov/system/files?file=2019-01/54918-Outlook-Chapter4.pdf) are accurate, the IRS will end up collecting about [$3.5 trillion](https://www.cbo.gov/system/files?file=2019-01/54918-Outlook-Chapter4.pdf) from taxpayers to fund everything from the FBI and the US military to food stamps, Medicare, and Social Security.

**And if those forecasts are accurate, that’s about** [**$1 trillion short**](https://www.reuters.com/article/us-usa-fiscal-idUSKBN1FI2P2) **of what Congress needs to fund the government.**

**Pundits will surely blame the ballooning budget gap on three factors: the GOP’s massive corporate tax cuts, rich Americans who hide money in offshore accounts, and the growing number of retiring baby boomers who are tapping into Social Security.**

All three are responsible, but they’re not the only reasons the US government is short of money.

**Millions of Americans are simply not paying their taxes.**

For about every 30 taxpayers who file their tax returns each year, there’s one business or household that doesn’t.

The amount of money they collectively owe is not trivial — about 14 million taxpayers owed $131 billion in taxes and penalties to the federal government in 2017, according to [the latest IRS data](https://www.irs.gov/pub/irs-soi/17databk.pdf).

Those numbers have skyrocketed in recent years. Since 2002, the number of taxpayers who owe money to the IRS has tripled, and so has the amount of unpaid taxes.

**Economic hardship during the Great Recession had a lot to do with it, but endless budget cuts to the IRS have made it impossible for the agency to make sure everyone pays their fair share**.

While the amount of unpaid taxes is going up, tax crime investigations have been falling for the past five years.

**Some of the worst offenders are businesses who pocket payroll taxes, according to the** [**inspector general for the Treasury’s Tax Administration**](https://www.treasury.gov/tigta/iereports/2017reports/2017IER004fr.pdf)**.**

**Thousands of employers are getting away with tax embezzlement each year, the IRS watchdog warned back in 2017, and that probably won’t change unless employers face jail time.**

Employers are pocketing taxes, and facing few consequences

Americans are often unaware of how much the US government depends on payroll taxes.

After income taxes, employment taxes are the federal government’s [largest source of revenue](https://www.irs.gov/pub/irs-soi/17databk.pdf).

The IRS collected $[1.1 trillion](https://www.irs.gov/pub/irs-soi/17databk.pdf) in employment taxes in 2017 — about 38 percent of all federal taxes collected.

Businesses withhold an employee’s 7.65 percent payroll tax contribution from each paycheck, and employers set aside their own 7.65 percent contribution per employee.

These are called Federal Insurance Contributions Act (FICA) taxes, and they fund government benefits such as Social Security, disability insurance, and Medicare.

Each month, employers are supposed to send the combined 15 percent FICA tax payments to the IRS.

The vast majority do.

Some send the payments a month or two late and pay penalties for the delay.

**But a growing number of employers are just skipping the entire process — and getting away with it, according to the IRS’s top watchdog.**

**They withhold payroll taxes from employees, but keep it for themselves.**

Here’s how Treasury official Gregory Kutz [described the problem in a 2017 report](https://www.treasury.gov/tigta/iereports/2017reports/2017IER004fr.pdf):

**Sometimes, employers experiencing economic strain “borrow the money for a short while” to use the withheld taxes to fund the employer’s operations.**

**Other employers willfully divert the withheld taxes for their own personal benefit, such as for the purchase of luxury items, vacations, and real estate.**

**As of 2017, about 6.9 million employers hadn’t paid those taxes, and the IRS slapped them with a total of $7 billion in penalties. But the fines and property seizures have done little to stop bad behavior.**

**The Treasury’s watchdog division is particularly worried about the rise of “egregious” cases: businesses that haven’t paid employment taxes for five years or longer.**

**In 1998, only about 5,000 employers hadn’t paid their payroll taxes in at least five years. By December 2015, according to IRS records, the number had more than tripled to 17,000**.

**One reason this is happening, Kutz says, is the IRS is prosecuting fewer tax crimes, so employers know there’s a good chance they can get away with it.**

Refusing to pay taxes is a federal felony, and comes with a maximum sentence of $10,000 in fines and five years in prison.

There are fewer than 100 criminal convictions per year — a number “so minuscule, in our opinion, there is likely little deterrent effect,” Kurtz wrote.

In the two years since the inspector general’s report, the IRS’s criminal division increased the number of employment tax investigations and referred more cases to the Department of Justice for prosecution.

But the DOJ has chosen to prosecute fewer employment tax crimes since 2016, leading to far fewer convictions:

**IRS: Criminal Investigation Annual Report 2018**

**In fact, prosecutions of all tax crimes have fallen in recent years, and the Trump administration’s budget cuts to the IRS have made the problem worse.**

The IRS doesn’t have enough officers to collect unpaid taxes

Part of the reason people owe more money to the IRS is the agency doesn’t have enough investigators.

Don Fort, the chief of IRS criminal enforcement, told Bloomberg in October that the agency has the same number of special agents — about 2,200 — as it did 50 years ago, even though the number of tax filers has increased and financial crimes have gotten more complex, [according to Bloomberg](https://news.yahoo.com/u-needs-crack-down-white-140023721.html).

(The Trump administration [cut even more positions](https://www.irs.gov/pub/irs-utl/2018_irs_criminal_investigation_annual_report.pdf) last year.)

The inspector general’s office had urged the IRS in 2007 to focus on investigating the most egregious cases — businesses that hadn’t paid employment taxes in more than five years, or who owed more than $1 million.

**The IRS said that was unlikely to happen.**

**“The biggest challenge facing both our civil and criminal enforcement of employment tax fraud is the significant and sustained decline in IRS resources ... this is a reality that no strategy can overcome,”** [**wrote Richard Weber**](https://www.treasury.gov/tigta/iereports/2017reports/2017IER004fr.pdf)**, who was the agency’s chief of criminal investigations, in 2017.**

Trump and his Republican allies in Congress shoulder some of the blame.

**Eight years ago, the GOP began** [**aggressively cutting the IRS budget each year**](https://www.nytimes.com/2018/10/01/business/economy/irs-tax-fraud-audit.html)**, and the agency’s enforcement staff has since dropped by a third.**

**During that time, spending within the agency has fallen by $533 million,** [**according to CNBC**](https://www.cnbc.com/2018/05/11/budget-cuts-shrink-the-irs-and-corporations-are-the-big-winners.html)**.**

So it’s not surprising that more people are getting away with tax evasion. In 2010, the IRS opened [1,948 tax crime](https://www.irs.gov/statistics/enforcement-collections-penalties-criminal-investigation) investigations — by 2017 the number of new cases had dropped to [1,188](https://www.irs.gov/pub/irs-soi/17databk.pdf).

**Trump,** [**whose family has been accused of tax evasion**](https://www.esquire.com/news-politics/a23580840/donald-trump-republicans-slash-irs-funding-enforcement/)**, has been all too willing to keep weakening the agency’s enforcement powers.**

**His administration cut another 140 special agents from the IRS last year, and his proposed 2020 budget, for example, would cut funding for IRS enforcement by nearly $154 million**.

That would make it even harder for the IRS to collect unpaid taxes, pushing the US government even further into debt.