

back to some studies 20 years ago, particularly in the area of passthrough entities.

I have a chart here that will make reference to some of these portions, significant portions of the tax gap. This is easily brought to focus on the Internal Revenue chart we have here. Remember, this is for tax year 2001, the latest available information. You can see it is only those items in bold that have been updated from the recent national research program, primarily in the area of individual income taxes and self-employment taxes; these areas right here.

It would be nice to have an update on all of this. But in order to get on top of it and get it done quickly, we asked the IRS to focus on these areas. With the colors, you can see it is only the green—underpayment of taxes—that we have high confidence in. The light blue has been recently updated. We have some better sense of what the costs are.

Unfortunately, it is the yellow—the bigger parts of the chart—that is dependent upon the older numbers sometimes going back years and years. That is the yellow portion I have already referred to.

In terms many can better understand, think of the yellow estimates as being the broad side of the barn in terms of accuracy. So there we have it. At the end of the day the tax gap, based on many old estimates, is thought to be \$345 billion for tax year 2001. That reflects a noncompliance rate of 16 percent. So basically, 84 percent of the tax dollars are coming in as required by law. We have a tax gap then of a remaining 16 percent.

Now I will turn to what are the elements of the tax gap. Again the chart from the Internal Revenue Service provides a useful blueprint. Nonfiling is about \$27 billion. These are the people who do not even file their taxes. Then there is the underreporting of \$285 billion. The Internal Revenue Service divides that into four categories: individual taxes at \$197 billion; employment taxes, \$54 billion; corporate income taxes at \$30 billion; and estate tax and excise taxes of \$4 billion.

Underpayment of taxes, which is the amount people admit they owe on their tax returns but do not pay on time, happens to be \$33 billion.

Clearly individuals make up the biggest part, with individuals underreporting nonbusiness income and business income, and overstating adjustments, deductions, and exemptions being the elements of the tax gap for individuals. A good deal of this is concentrated in the areas of self-employment and schedule C of the tax return.

Now that we have gone through how we measure the tax gap and what makes up the tax gap, the most important thing people want to know is—they do not want a definition of the problem—what can be done to close it? That is what my constituents ask me.

I believe the real question is one I would state this way: What steps can

be taken that are effective and will not unduly burden taxpayers? We have to bear in mind most taxpayers do comply, and a significant amount of non-compliance is unintentional. I think all Members recognize that in the zeal to get at the tax gap, we cannot wreck the lives of the honest taxpayers. Most of the taxpayers, 85 percent, are not a problem. We cannot be like the fellow who tears down his house to get at the mouse. Members on the other side should be particularly sensitive to the mindset of not taking on the honest taxpayer when trying to take care of the problem of the 15 percent, given this was effectively what was being promoted in 1994 with the wholesale reform of health care. Proponents in 1994 wanted to change the health care system for 85 percent of the people for whom the system worked to help the 15 percent of the people who did not have health insurance. The voters were right in telling political leaders at that time in 1994 that this did not make any sense. First we need to recognize that the Internal Revenue Service is already, through enforcement, doing quite a bit to deal with the tax gap.

This chart reflects the Internal Revenue Service's testimony before the Budget Committee and estimates the IRS activities will reduce the tax gap, the \$345 billion total, by nearly \$70 billion by the year 2007. This reflects \$17 billion in direct enforcement revenue and the rest in direct compliance effects. So we start with that as the base, the work of the Internal Revenue Service, which is already reducing approximately 20 percent of the tax gap, with Commissioner Everson's statements last year that the Internal Revenue Service could bring in somewhere between \$50 billion and \$100 billion a year without dramatically changing the relationship between the IRS and taxpayers; in other words, not being more egregious against the honest taxpayer. Well, the IRS is already doing that, according to its Commissioner.

The ACTING PRESIDENT pro tempore. The Senator's time has expired.

Mr. GRASSLEY. Mr. President, I have to have 10 more minutes, maybe less than that.

The ACTING PRESIDENT pro tempore. The Senator will have to propound a unanimous-consent request to that effect.

Ms. COLLINS. Mr. President, I think we have votes that are scheduled at 11:45.

The ACTING PRESIDENT pro tempore. That is correct.

Ms. COLLINS. Perhaps the Presiding Officer could review—

Mr. GRASSLEY. Mr. President, I will complete my statement later, but I wish people would get it straight. If I were told I could come over here and finish my statement, and do it in morning business, I would like to be able to do it; otherwise, I would have waited to do it tonight.

## CONCLUSION OF MORNING BUSINESS

The ACTING PRESIDENT pro tempore. Morning business is closed.

## IMPROVING AMERICA'S SECURITY ACT OF 2007

The ACTING PRESIDENT pro tempore. Under the previous order, the Senate will resume consideration of S. 4, which the clerk will report.

The legislative clerk read as follows:

A bill (S. 4) to make the United States more secure by implementing unfinished recommendations of the 9/11 Commission to fight the war on terror more effectively, to improve homeland security, and for other purposes.

Pending:

Reid amendment No. 275, in the nature of a substitute.

Landrieu amendment No. 321 (to amendment No. 275), to require the Secretary of Homeland Security to include levees in the list of critical infrastructure sectors.

Schumer/Clinton amendment No. 336 (to amendment No. 275), to prohibit the use of the peer review process in determining the allocation of funds among metropolitan areas applying for grants under the Urban Area Security Initiative.

Coburn amendment No. 325 (to amendment No. 275), to ensure the fiscal integrity of grants awarded by the Department of Homeland Security.

Coburn amendment No. 294 (to amendment No. 275), to provide that the provisions of the act shall cease to have any force or effect on and after December 31, 2012, to ensure congressional review and oversight of the act.

Kyl modified amendment No. 357 (to amendment No. 275), to amend the data-mining technology reporting requirement to avoid revealing existing patents, trade secrets, and confidential business processes, and to adopt a narrower definition of data-mining in order to exclude routine computer searches.

Biden amendment No. 383 (to amendment No. 275), to require the Secretary of Homeland Security to develop regulations regarding the transportation of high-hazard materials.

Schumer modified amendment No. 367 (to amendment No. 275), to require the Administrator of the Transportation Security Administration to establish and implement a program to provide additional safety measures for vehicles that carry high-hazardous materials.

Stevens amendment No. 299 (to amendment No. 275), to authorize NTIA to borrow against anticipated receipts of the Digital Television Transition and Public Safety Fund to initiate migration to a national IP-enabled emergency network capable of receiving and responding to all citizen-activated emergency communications.

Schumer/Clinton amendment No. 337 (to amendment No. 275), to provide for the use of funds in any grant under the Homeland Security Grant Program for personnel costs.

Bond/Rockefeller amendment No. 389 (to amendment No. 275), to provide the sense of the Senate that the Committee on Homeland Security and Governmental Affairs and the Select Committee on Intelligence of the Senate should submit a report on the recommendations of the 9/11 Commission with respect to intelligence reform and congressional intelligence oversight reform.

AMENDMENTS NOS. 294 AND 325

The ACTING PRESIDENT pro tempore. Under the previous order, the