

Tax Gap and Compliance

Craig Bolio, Commissioner of Taxes

Tax Gap

What is the tax gap?

The difference between what should have been reported and paid in taxes and what *was* reported and paid in taxes.

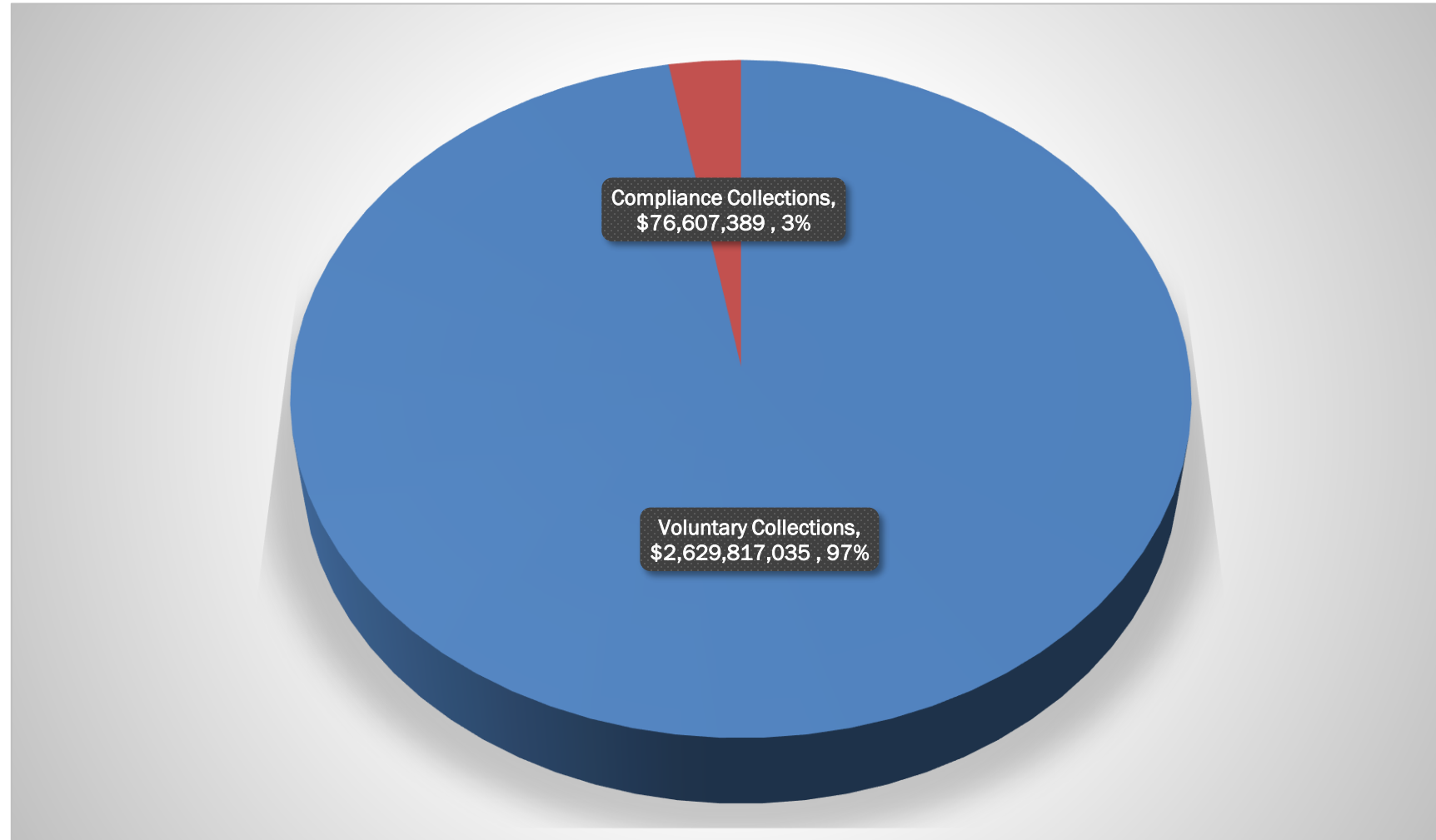
Elements of the tax gap include:

- Non-filers
- Underreporting income
- Underpayment of reported taxes
- Erroneous credit claims

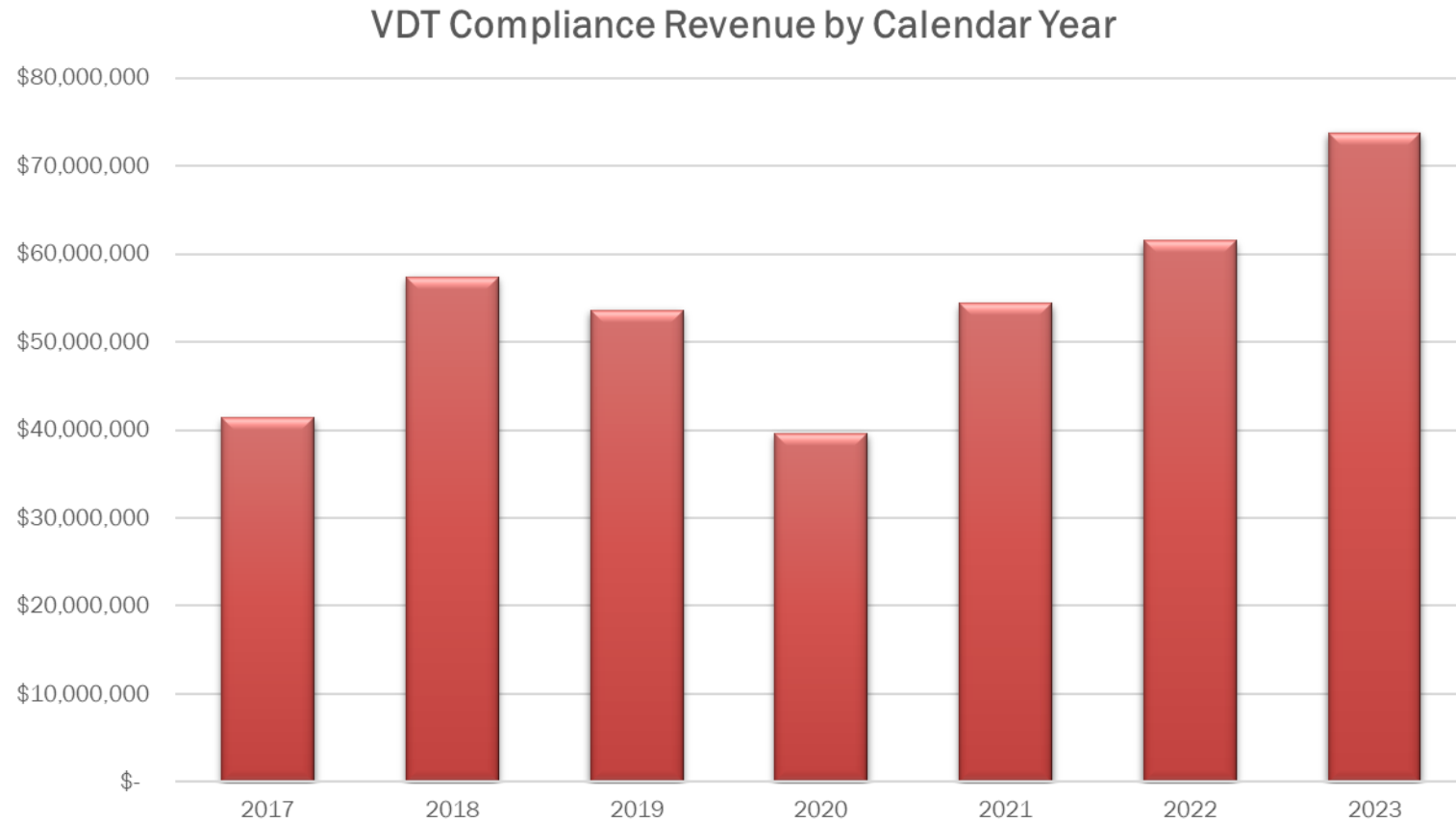
Breakdown of VDT Collections (FY23)

Compliance Revenue:

- Billed accounts
- Audits
- Offsets

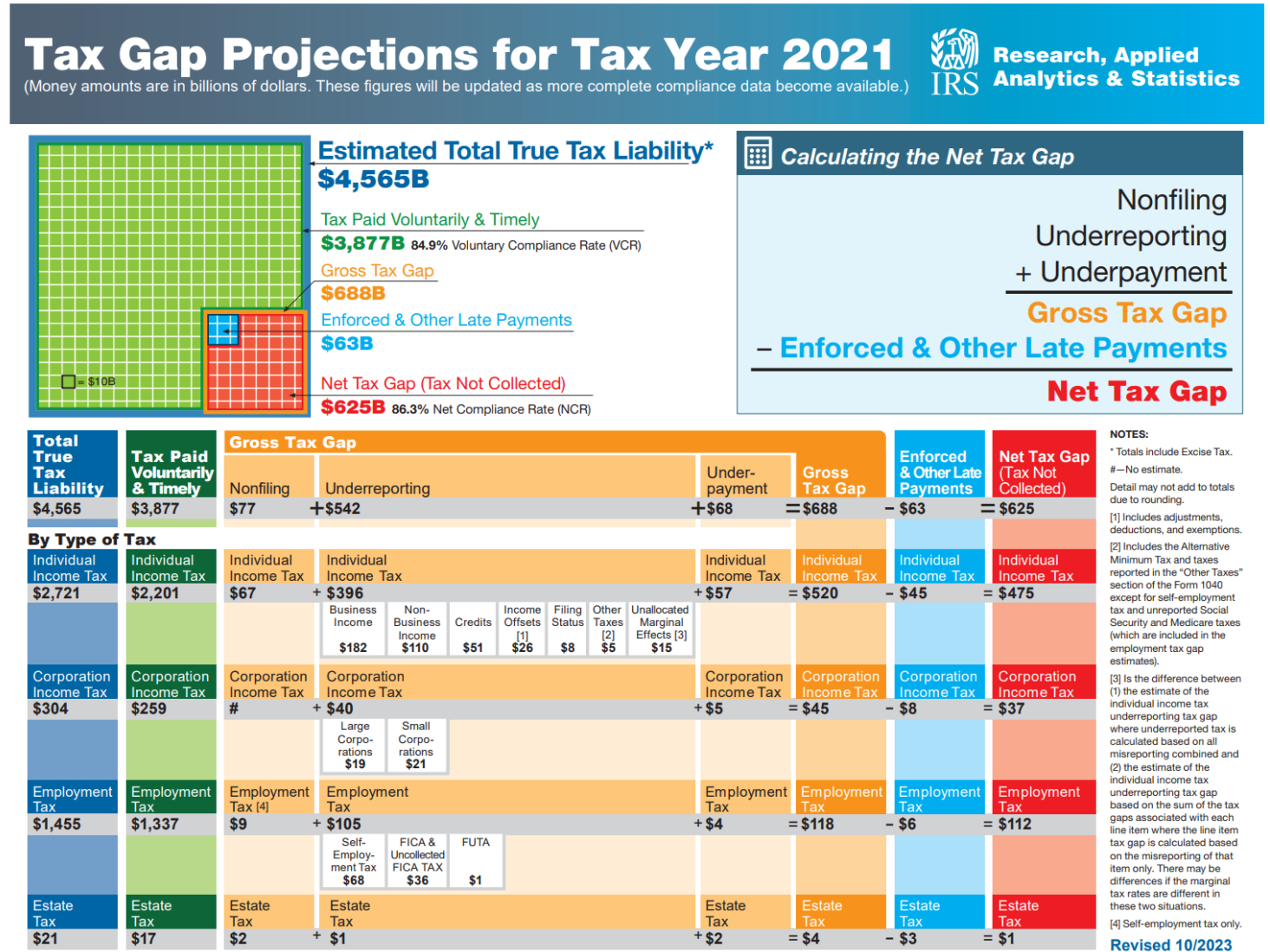


VDT Compliance Revenue Trends Over Time



Federal Tax Gap

Figure 1. TY 2021 Projected Tax Gap Map

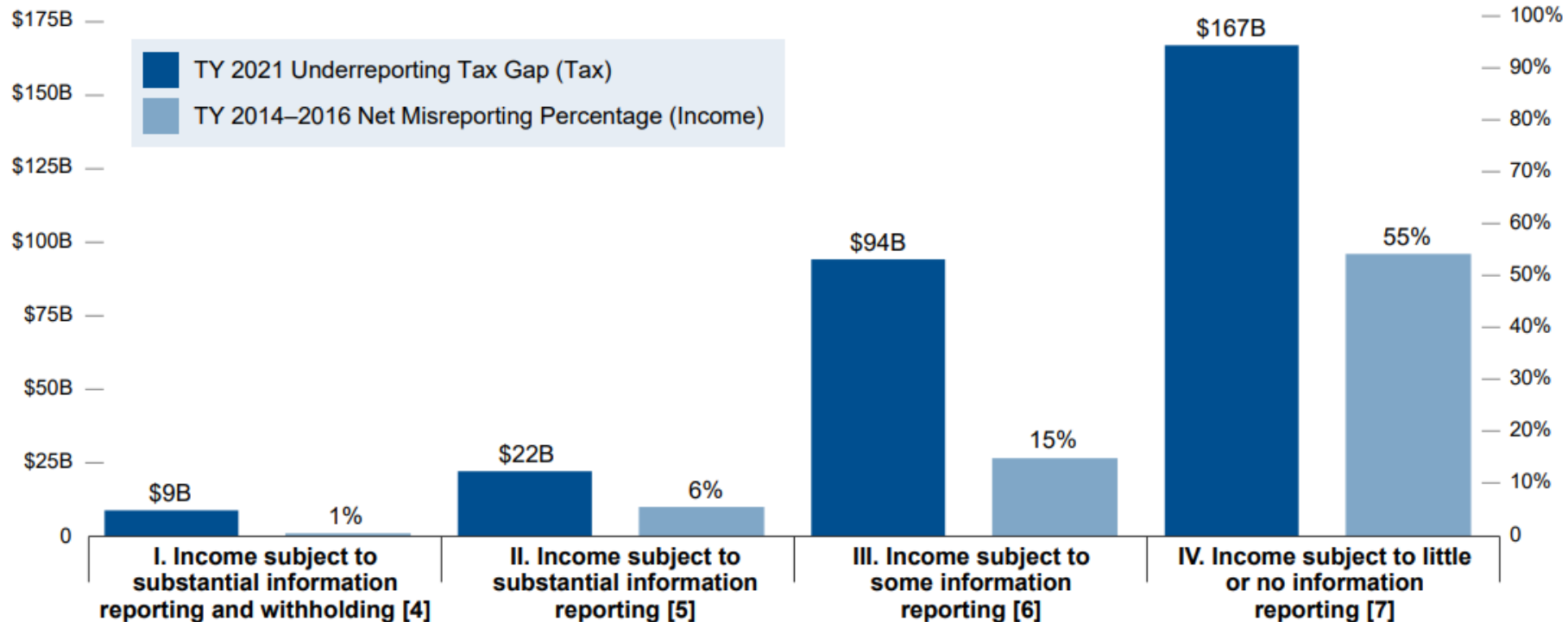


- [Publication 5869 \(10-2023\) \(irs.gov\)](https://www.irs.gov/publications/p5869)
- Gross tax gap \$688 billion (compliance rate 84.9%)
- Net tax gap \$625 billion (compliance rate 86.3%)
- Scaled to Vermont – Maybe \$400 million

Federal Tax Gap

Figure 4. Effect of Information Reporting on Individual Income Tax Reporting Compliance, Tax Years 2014–2016 NMP Estimates and TY 2021 Projections

“Visibility” Chart: Tax Year 2021 [1] Individual Income Tax Underreporting Tax Gap Projections and Tax Year 2014–2016 [2] Net Misreporting Percentage [3] Estimates by “Visibility” Category of Income Items



[1] These figures will be updated as more complete compliance data become available.

[2] The TY 2014–2016 estimate is the annual average for the TY 2014, 2015, and 2016 timeframe. This chart displays the tax gap attributable to the underreported income category and the rate at which that income is misreported as measured by the Net Misreporting Percentage.

[3] The Net Misreporting Percentage is the ratio of the net misreported amount to the sum of the absolute values of the amounts that should have been reported, expressed as a percentage. For categories I–IV, the net misreported amount is understatements of income less overstatements of income. On net, income is understated for these categories.

[4] Includes wages & salaries.

[5] Includes pensions & annuities, unemployment compensation, dividend income, interest income, taxable Social Security benefits.

[6] Includes partnership/S corp. income, capital gains, alimony income.

[7] Includes nonfarm proprietor income, other income, rents and royalties, farm income, Form 4797 income.

Department Goals

Mission, Goals, and Values

Mission

Our mission is to serve Vermonters by administering our tax laws fairly and efficiently to help taxpayers understand and comply with their state tax obligations.

Be a model of service-oriented tax administration

Our Goals

Service-oriented tax administration improves compliance rates, increases taxpayer satisfaction, and enhances engagement with our community. By helping Vermont's taxpayers understand their tax liabilities and making tax filing and payment as easy as possible, we enable our taxpayers to meet their tax obligations, supporting the voluntary reporting structure that is the bedrock of the U.S. tax system. We strive to provide user friendly systems, clear guidance, and easy ways to contact the Department when taxpayers need help.

Reduce the tax gap

The tax gap represents the difference between the amount of taxes that should have been paid to Vermont and the amount that was paid. Unreported, underreported, and unpaid taxes all contribute to the tax gap. A study released in September 2019 by the IRS estimated the net federal tax compliance rate for tax years 2011-2013 was 85.8%. Scaling this amount to Vermont's tax collection base would result in a Vermont tax gap of over \$300 million annually. Reducing the tax gap involves both promoting voluntary compliance as well as ensuring we effectively and fairly address compliance situations where taxes are not reported and paid voluntarily.

Promote a healthy organizational culture that helps our employees thrive

For us to rise to our mission, we must recruit and retain the most talented workforce possible. Recognizing that our agency is competing with a variety of other organizations, including private sector businesses and other government entities, we must strive to be an employer of choice within Vermont state government. By focusing on culture, employee engagement and morale, and rewarding opportunities for staff, we can ensure we're providing the highest possible level of government service, as well as a great place to work for Vermonters.

Compliance Philosophy

What's the point of doing compliance?

What's the most effective way to do compliance?

VERMONT DEPARTMENT OF TAXES

Mission, Goals, and Values

Our Core Values

Service	Integrity	Growth	Community
<ul style="list-style-type: none">We lean into problem solving.We are responsive to taxpayers, and we listen.We treat each taxpayer fairly.We provide reliable, clear communication and guidance.We promote voluntary compliance to reduce the tax gap.	<ul style="list-style-type: none">We keep systems and confidential information secure.We set realistic expectations and follow through when we say we will do something.We collect the correct amount of tax.We hold ourselves accountable.We provide honest and accurate information.	<ul style="list-style-type: none">We work together to adapt to new challenges and continuously improve.We provide a solid career path and communicate with staff to meet goals and recognize accomplishments.We provide educational opportunities to foster an environment that promotes professional and personal growth.	<ul style="list-style-type: none">We work as one team across the Department.We encourage asking for and accepting help when needed.We treat all people with kindness.We value difference of thought, experience, and culture.We work across agencies towards common goals.

VERMONT DEPARTMENT OF TAXES

Compliance Philosophy – Service Oriented!

- **BIG** data
- Expand our expertise and reach
- Improve education efforts

Education Efforts

- [Compliance Corner | Department of Taxes \(vermont.gov\)](#)
- [Fact Sheets and Guides | Department of Taxes \(vermont.gov\)](#)
- [Industry Guidance | Department of Taxes \(vermont.gov\)](#)
- New business outreach program

What's next for us?