

SSA STAFF

MICHAEL T. SCANLON JR.
President & CEO
mscanlon@selfstorage.org

TIMOTHY J. DIETZ
Sr. Vice President
Communications & Gov't Relations
tdietz@selfstorage.org

MIKE BLACKETT
Vice President
Operations
mblackett@selfstorage.org

DEREK KNIGHTS
Vice President
Finance & Administration
dknights@selfstorage.org

MARTHA M. MORRISON, CMP
Vice President
Meetings & Trade Shows
martham@selfstorage.org

GINNY A. STENDEL
Vice President
Member Services
gstengel@selfstorage.org

TOM COMI
Director, Advertising Sales
tcomi@selfstorage.org

JENNIFER L. PETTIGREW
Director, Registration,
Vendor & Sponsorship Relations
jpettigrew@selfstorage.org

LAUREN WILLIAMS
Executive Administrative Assistant
llwilliams@selfstorage.org

JOHN DUNLAP
SSA Globe Associate Editor
jdunlap@selfstorage.org

Caught in the Tax Gap

By Tim Dietz – SSA Sr. VP, Communications & Government Relations



I nearly fumbled my coffee all over my keyboard last week when the *New York Times* reported that not only did GE not pay any taxes in 2010, it realized a tax benefit of \$3.2 billion; this despite realizing earnings of \$5.1 billion. Jon Stewart had a field day on *The Daily Show* with this tidbit. But is the truth really that simple?

I am sure that GE's tax department does an outstanding job of ensuring that the corporate behemoth pays the least amount of taxes possible, but I expect that given the many types of applicable taxes and deductions claimed there is some rationale to this murky situation. For example GE Capital certainly lost billions in the recent great recession and thus will realize billions in write-offs as a result. We'll let the economic geniuses of Manhattan ponder this issue. What I am more concerned about is fair treatment of small businesses.

Eighty-six percent of SSA members operate one to four facilities, making most of our members small businesses. So I paid special attention to a report released last month that indicated that small businesses have experienced a disproportionate amount of tax audits as the IRS has worked to close the nation's enormous tax gap—the difference between taxes owed and taxes paid.

A study commissioned by the Small Business Administrations Office of Advocacy (which independently works to support small business needs) found flaws in how the IRS perceives the tax gap, particularly as it relates to large corporations and international tax transactions which were generally excluded from the IRS's National Research Program (NRP) upon which the tax gap recovery was based. According to the SBA, "Methodologically, the IRS focused its tax gap study on individual income tax returns (in the year 2001), and on returns not subject to withholding or third party reporting, skewing them unfairly toward small business."

In other words, large corporation tax gaps are not adequately measured. The study suggests that these estimates in the 2001 NRP are based on data from the 1970s and 1980s and that the IRS did not update them for the analysis. So it seems antiquated trends focused tax gap efforts on individual tax processes, not large or international companies. "The tax gap estimates have led to increased audits and information reporting requirements for small businesses, such as the new 1099 reporting requirement," according to Chief Counsel for Advocacy Winslow Sargeant.

The tax gap estimates developed by the IRS's NRP suggested that under-reporting of income by small businesses represents \$83–\$99 billion of the \$150–\$187 billion individual income tax gap for 2001. But auditors working for the IRS who conducted the NRP examinations found that only one percent of these situations resulted from deliberate or intentional failures to report income properly. Yet the IRS continued to pursue tax gap remedies via auditing of this segment, instead of more benign remedies.

Says Sargeant, "A better strategy for the IRS to increase their compliance would be through outreach and education programs, and a more balanced approach to enforcement."

Sadly, stories such as these demonstrate why Americans have such a cynical view of our government, and particularly, the IRS. The full study is available online at WWW.SBA.GOV/ADVOCACY. ❖