



HB 2990: Daylighting the Underground Economy

Testimony for House Revenue 3.28.2013 Jody Wisner

HB 2990 addresses the persistent problem of the untaxed underground economy. We are heartened to see this bill. It will likely do more for job creation than any other bill before the legislature this year, and the jobs will be jobs for teachers, police officers, and health care workers whose work will be supported by the new income for Oregon that HB 2990 will bring.

According to the IRS data, collected in a very large study, cheating on business income was "a problem 50 times larger" than cheating by wage earners, reported Mr. Everson, then Director of the IRS. The I.R.S. estimate was based on a detailed study in 2001 of 46,000 individual income tax returns

The biggest single revenue loss came from proprietors of unincorporated businesses, who typically file a Schedule C with their tax return. In percentage terms, farmers cheated the most, the I.R.S. said, failing to pay the government 72 percent of the taxes they should have.

The ability of the I.R.S. to enforce the tax laws has steadily eroded in the last 23 years as its ranks of auditors have been trimmed by about a third, and barely been rebuilt. While the tax code has become more complex and new laws have been enacted to protect taxpayer rights, enforcement has gone down. The likelihood of an IRS audit is less than 1%, and the state has, to a large degree, relied upon the IRS to perform audit functions.

In his proposed budget for 2007, Mr. Bush laid out a five-point plan to reduce the underpayment of taxes by \$350 million a year, an amount equal to a tenth of a penny per dollar of the unpaid taxes.

A more serious IRS effort to reduce the tax gap appears unlikely. That leaves it to the states. This bill is the most conscious effort we've seen in the 10 years we've been watching this body. It will matter. Based on apply our 1.4% of the national economy figure to the IRS estimates, we find that over \$14 billion of income isn't reported in Oregon, reducing our tax receipts by \$730 m to \$1 b. In addition, the use of HB 2990 will likely decrease the cost of our EITC, since many taxpayers will become ineligible when all income is reported.

We would recommend only two changes.

- 1) Renters, homeowners, car owners and those who use personal services from lawyers to masseuses should be encouraged to use the form as well. When the workers from a Vancouver-based window washing and roof maintenance company said on their second appointment, that they had just run out of invoices, I realized that without an invoice my payments would not be reported. Never mind that I was paying by check.

While it is important to require reporting of business-to-business transactions, encouraging others to report payments should be encouraged and supported.

- 2) It should be clear that the form, likely Oregon 1099, can be provided to the payee at either the time the work is done or at the end of the year.