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Tax Gap Projections for Tax Year 2022

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Tax Gap Projections for Tax Year 2022

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Executive Summary

The TY 2022 projected gross tax gap slightly decreased compared to the revised 2021 projections. The projected voluntary compliance rate of 85.0% remained about the same, but estimated true tax liability decreased, primarily due to a decrease in capital gains.

This report presents projections of the tax gap for Tax Year (TY) 2022. It also provides revised projections for the TY 2017–2019 time frame and TY 2020 and TY 2021 that incorporates data that were not yet available when the projections were initially released. These projections are predictions of the tax gap accounting for changes in the numbers and types of returns *assuming compliance behavior remains the same from many years prior*. They are not predictions of compliance behavior.

TY 2022 Tax Gap Projection

- Gross Tax Gap: $696B
- Voluntary Compliance Rate: 85.0%
- Enforced & Other Late Payments: $90B
- Net Tax Gap: $606B
- Net Compliance Rate: 86.9%

The tax gap is a measure of the level of overall noncompliance, in the context of Internal Revenue Code provisions in effect at the time. The estimates provide the Internal Revenue Service (IRS) with periodic appraisals of the nature and extent of noncompliance for use in formulating tax administration strategies. The word "tax" in the phrase "tax gap" is used broadly to encompass both tax and refundable and nonrefundable tax credits.

The gross tax gap is the amount of true tax liability that is not paid voluntarily and timely. **The projected annual gross tax gap for TY 2022 is $696 billion** (Figure 1). The voluntary compliance rate (VCR) is a ratio measure of relative compliance and is defined as the amount of "tax paid voluntarily and timely" divided by "total true tax," expressed as a percentage. **The projected VCR is 85.0 percent.**

The TY 2022 gross tax gap comprises three components:

- Nonfiling (tax not paid on time by those who do not file on time, $63 billion),
- Underreporting (tax understated on timely filed returns, $539 billion), and
- Underpayment (tax that was reported on time, but not paid on time, $94 billion).

The net tax gap is the gross tax gap less tax that subsequently will be paid, either voluntarily but late or collected through IRS administrative and enforcement activities. The net tax gap is the portion of the gross tax gap that will not be paid. **A projected $90 billion of the gross tax gap eventually will be paid, resulting in a TY 2022 net tax gap of $606 billion.** The net compliance rate (NCR) is defined as the sum of "tax paid voluntarily and timely" and "enforced and other late payments" divided by "total true tax," expressed as a percentage. **The projected NCR is 86.9 percent.**

The tax gap projections are also segmented by type of tax. Figure 1 shows that individual income tax makes up the largest components of the tax gap, contributing $514 billion to the gross tax gap and $447 billion to the net tax gap for TY 2022. The second and third largest components involve the employment tax, which includes self-employment, and the corporation income tax.

Comparison with Revised TY 2021 Projections

Many factors contribute to differences over time in both the gross tax gap and the VCR. These include factors such as the overall level of economic activity, changes in the composition of economic activity, for example shifts toward those activities with higher or lower compliance rates, changes in tax law and tax administration practices, updated data and improved methodologies, and changes in underlying compliance behavior on the part of taxpayers, tax preparers, and other tax advisors.

The projected VCR for TY 2022 (85.0 percent) is about the same as the revised TY 2021 projection (84.9 percent), (Table 1). This finding is largely expected since the projection methodology assumes that reporting compliance behavior has not changed since the TY 2014–2016 time frame. However, the TY 2022 gross and net tax gap projections of $696 billion and $606 billion, respectively, are lower than their respective revised TY 2021 projections by $12 billion (gross) and by $11 billion (net). These decreases of about 2 percent in both the gross and net tax gap are similar to the 1 percent decrease in true tax liability shown in the table. For comparison, the Gross Domestic Product (GDP) grew by 9 percent from 2021 to 2022.

- Tax Gap analysis consistently shows that compliance is higher when there is third- party information reporting and withholding.
- TY 2014–2016 tax gap analysis shows that misreporting of wages, which is subject to substantial information and withholding, is 1 percent compared to 55 percent for non-farm proprietor income, which is subject to little or no information reporting.

The Effect of Information Reporting on Tax Compliance

Findings from tax gap analyses have consistently shown that compliance is higher when amounts are subject to information reporting and even higher when also subject to withholding. The extent of coverage by information reporting and/or withholding is called "visibility" because incomes that are reported to the IRS are more "visible" to both the IRS and taxpayers. Tax gap analysis for the TY 2014–2016 time frame shows that misreporting of income amounts subject to substantial information reporting and withholding is 1 percent of income. For amounts subject to substantial information reporting but not withholding, it is 6 percent; and for income amounts subject to little or no information reporting, such as nonfarm sole proprietor income, it is 55 percent. (See Figure 3.)

Methodology[1]

A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed examinations. Waiting for the data to become available allows the estimates to reflect the compliance behavior for the years of the estimates, but by then the time frame of the estimates can be several years prior to the year of the tax gap release. To address this issue, the current release includes tax gap projections for TY 2022 and revised projections for TY 2020 and TY 2021

[1] For more detail, refer to: Internal Revenue Service. Tax Gap Projections Methodology, IRS Publication 6031 (Rev. 10-2024), Washington, D.C. 2024. https://www.irs.gov/pub/irs-pdf/p6031.pdf

as a bridge between the competing priorities of the need for more contemporaneous tax gap estimates and having tax gap estimates based on compliance data for the time frame of the estimates.

The estimation methods used to produce the tax gap estimates and the projections vary by the tax gap component, reflecting the timing in which compliance data become available for use in estimation. For example, the projections of the underreporting tax gap generally assume that compliance behavior has not changed from the TY 2014–2016 time frame and that the tax gap grew at the same rate as the growth in reported tax.[2] Conversely, the individual nonfiling tax gap projections are based on analysis of IRS administrative data.

The projections will be annually updated as additional compliance data become available and improvements are made to the methodologies. Updated administrative tax return data increased the TY 2021 total underreporting tax gap projection by $11 billion, of which the corporation income tax accounts for $9 billion of the increase. Updated administrative data increased the TY 2021 underpayments tax gap projection by $29 billion. The individual income tax nonfiling tax gap projections methodology was improved to better account for the share of taxpayers who will eventually file a late tax return as opposed to never filing a return. This methodological change reduced the TY 2021 nonfiling tax gap projection by $20 billion. The enforced and other late payments methodology was updated to account for the relationship between late payments and underpayments on timely filed returns. This change increased projected TY 2021 enforced and other late payments by $28 billion.

Data and Modeling Limitations

Given the complexity of the tax system and available data, no single approach can be used for estimating each component of the tax gap. Each approach is subject to measurement or nonsampling error; the component estimates that are based on samples are also subject to sampling error. For the individual income tax underreporting tax gap, Detection Controlled Estimation (DCE) is used to adjust for measurement errors that result when some existing noncompliance is not detected during an audit.[3] Other statistical techniques are used to control for bias in estimates based on operational audit data. Due to the heterogenous nature of the estimation methodology, no standard errors are reported, however the user should be mindful of these limitations when using these estimates. Since the underreporting projections in this report are projections assuming compliance rates have not changed from prior tax gap estimates, they are subject to the same data limitations as the tax gap estimates.

The projections do not fully represent noncompliance in some components of the tax system, particularly as relates to corporation income tax, income from flow-through entities, foreign or illegal activities, digital assets, and pandemic credits, because data are lacking. In general, the estimates and projections are subject to various types of error. There is sampling error, measurement error, estimation error, coverage error and projection error.[4]

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[2] The individual income tax underreporting tax gap is assumed to grow at the same rate as the growth in the reported amounts for the line items on the individual income tax return for which tax gap estimates and projections are produced.

[3] Detection Controlled Estimation is an econometric technique used to estimate unreported income that was not detected on the examinations used to estimate the individual income tax underreporting tax gap. For more on the underreporting tax gap estimation methodology on which the projections are based, refer to: Internal Revenue Service (2022). "Estimation of the Underreporting Tax Gap for Tax Years 2014–2016: Methodology." IRS Publication 5784, Washington, DC, revised October 2022. https://www.irs.gov/pub/irs-pdf/p5784.pdf

[4] For more detail, refer to: Internal Revenue Service. Tax Gap Projections Methodology, IRS Publication 6031 (Rev. 10-2024), Washington, D.C. 2024. https://www.irs.gov/pub/irs-pdf/p6031.pdf

Tax Gap Projections for Tax Year 2022

The primary focus of tax gap estimation is to measure tax compliance behavior. The tax gap concept translates noncompliant behavior into measures that reflect tax not paid voluntarily and/or timely as a result of the noncompliant behavior. The concepts and measures are defined on a tax year basis.

Projections for Tax Year 2022

This report presents projections for Tax Year 2022 and revised projections for TY 2020 and TY 2021. The approaches used to project the various tax gap components generally follow the methods used for the previous projections.[5]

Overall Gross and Net Tax Gap

The tax gap map schematics (Figure 1) on the following page show the gross tax gap, enforced and other late payments, and net tax gap for all types of taxes and components combined and also by type of tax and component separately. The projected annual gross tax gap for the TY 2022 is $696 billion. A projected $90 billion of the gross tax gap eventually will be paid resulting in a net tax gap of $606 billion. The projected TY 2022 voluntary compliance rate (VCR) is 85.0 percent. The projected net compliance rate (NCR) is 86.9 percent.

Table 1 reports the 2022 tax gap projections for the major components, along with the revised TY 2017–2019, TY 2020 and TY 2021 projections, and the TY 2014–2016 tax gap estimates on which many of the projections are based. The revisions to previous years projections reflect new available data.

Many factors contribute to differences over time in both the gross tax gap and the VCR. These include factors such as the overall level of economic activity, changes in the composition of economic activity with shifts toward those with higher or lower compliance rates, changes in tax law and administration, updated data and improved methodologies, and changes in underlying compliance behavior on the part of taxpayers, tax preparers, and other tax advisors. Figure 2 shows the gross tax gap and VCR estimates and projections for TY 2006 and later. During the TY 2014–2016 time frame, the economic expansion and recovery from the Great Recession continued. The impact of the Great Recession is reflected in estimated gross tax gaps for TY 2008–2010 and TY 2011–2013 that are lower than for TY 2006. Figure 2 shows the continued growth in projections of the gross tax gap, while the projected VCR remains relatively stable since the TY 2014–2016 time frame. Given many of the projections assumed constant compliance since TY 2014–2016, the overall stability in the projected VCR is expected. The stability of the VCR despite the projected growth in the gross tax gap demonstrates the impact of the overall level of economic activity on the gross tax gap, generally holding compliance rates constant.

Table 2 provides a breakout of the TY 2014–2016 tax gap estimates and the projections by major components and types of tax.

Table 3 provides additional detail on the TY 2022 and revised TY 2020, TY 2021 tax gap projections by major components and types of tax along with shares of the gross tax gap. Underreporting accounts for most of the projected gross tax gap for TY 2022, about 77 percent. Within the underreporting tax gap,

[5] For more detail on the previous projections, refer to: Internal Revenue Service. Tax Gap Projections for Tax Years 2020–2021, IRS Publication 5869 (Rev. 10-2023), Washington, D.C. 2022. https://www.irs.gov/pub/irs-prior/p5869--2023.pdf

individual income tax underreporting is projected to contribute the most to the gross tax gap at 55 percent in TY 2022. Business income is projected to be the largest contributor within the individual underreporting tax gap, contributing 28 percent to the gross tax gap in TY 2022. The nonfiling tax gap is projected to account for 9 percent of the gross tax gap in TY 2022. The underpayment tax gap is projected to account for around 14 percent of the gross tax gap in TY 2022.

Nonfiling Tax Gap

Sufficiently reliable information exists for developing estimates and projections of the nonfiling tax gap for three types of tax: individual income tax, self-employment tax, and estate tax. The nonfiling tax gap is the tax gap associated with required tax returns that were not filed at all or were filed after the filing deadline or valid extension date.

As shown in Table 3, the nonfiling tax gap is projected to account for about 9 percent of the gross tax gap in TY 2022. The projected nonfiling tax gap is $63 billion for TY 2022.

The individual income tax nonfiling tax gap is projected to be $53 billion for TY 2022, which is about 8 percent of the gross tax gap. The self-employment tax nonfiling tax gap is projected to be $9 billion in TY 2022, which is about 1 percent of the gross tax gap. The estate tax nonfiling tax gap is projected to be about $1 billion, which represents less than 0.5 percent of the gross tax gap in TY 2022.

Underreporting Tax Gap

As shown in Table 3, of the projected $696 billion gross tax gap for TY 2022, $539 billion (approximately 77 percent) is projected to result from the underreporting of true tax on timely filed returns.

The individual income tax underreporting tax gap is $381 billion (55 percent) of the projected TY 2022 gross tax gap. The corporation income tax underreporting tax gap, the employment tax underreporting tax gap, and the estate tax underreporting tax gap are projected to be 6 percent, 16 percent, and less than one half of one percent of the gross tax gap, respectively, in TY 2022.

Tables 4 show additional information on the individual income tax underreporting tax gap projections for TY 2022. The projections provide a breakdown of the components of the individual income tax underreporting tax gap grouped by the "visibility" categories also shown in Figures 3. For each component, the table shows the component's share of the individual income tax underreporting tax gap. The table also shows each component's share of the gross tax gap. Items subject to little or no information include nonfarm proprietor income, farm income, rents and royalties, Form 4797 income and other income. This visibility category contributes the most to the gross tax gap, accounting for $179 billion (26 percent) of the TY 2022 gross tax gap. The TY 2014–2016 tax gap estimates show that 55 percent of income subject to little or no information reporting is misreported.

Underpayment Tax Gap

About 14 percent of the gross tax gap for TY 2022 results from taxpayers not timely paying in full the tax they report on timely filed returns. The projected underpayment tax gap is $94 billion for TY 2022.

About 12 percent of the projected gross tax gap for TY 2022 (about $80 billion) is from underpayment of individual income tax. Underpayment of corporation income taxes accounts for 1 percent of the gross tax gap. Underpayment of employment taxes (Federal Insurance Contributions Act, Federal Unemployment Tax Act, Self-Employment Contributions Act, and the railroad retirement tax) accounts for 1 percent of the gross tax gap. Underpayment of estate tax and excise tax each account for less than 0.5 percent of the gross tax gap.

Enforced and Other Late Payments

Some of the gross tax gap is collected through IRS enforcement and administrative efforts and some is paid late without any IRS action taken. The total amount of enforced and other late payments is projected to be $90 billion in TY 2022. About 75 percent of the projected total, or $68 billion, is associated with individual income tax. About 11 percent of the total, or $10 billion, is associated with corporation income tax enforced and other late payments. Employment tax enforced and other late payments are 9 percent of the total or $8 billion. Estate tax enforced and other late payments are projected to be $4 billion or about 5 percent of the total in TY 2022. Excise tax enforced and other late payments account for less than one-half of 1 percent of all enforced and other late payments.

Net Tax Gap by Type of Tax

Projections of enforced and other late payments by type of tax are subtracted from the respective gross tax gap projections to obtain the net tax gap projections by type of tax. As shown on the Tax Gap Map (Figure 1), the net tax gap for individual income tax is projected to be $447 billion for TY 2022. The net tax gap for corporation income tax is projected to be $40 billion for TY 2022. The net tax gap for employment taxes is projected to be $119 billion for TY 2022. The estate tax and excise tax net tax gap are each projected to be less than $0.5 billion for TY 2022.[6]

Voluntary Compliance Rates by Type of Tax

Table 5 shows the VCRs by type of tax along with their distributions of tax liability. As expected, because the projection methodology assumes that reporting compliance behavior has not changed since the TY 2014–2016 time frame, the VCR projections remain largely constant. Individual income tax as a share of overall tax liability is projected to increase to 58% for TY 2021 and then fall back to 55% for TY 2022.

[6] The excise tax gap is included in the total tax gap numbers but is not shown separately in the tax gap map.

Figure 1. TY 2022 Projected Tax Gap Map

Tax Gap Projections for Tax Year 2022

(Money amounts are in billions of dollars. These figures will be updated as more complete compliance data become available)

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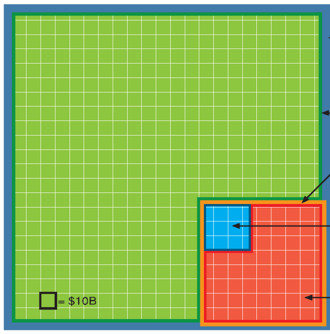


Estimated Total True Tax Liability*
$4,635B

Tax Paid Voluntarily & Timely
$3,939B 85.0% Voluntary Compliance Rate (VCR)

Gross Tax Gap
$696B

Enforced & Other Late Payments
$90B

Net Tax Gap (Tax Not Collected)
$606B 86.9% Net Compliance Rate (NCR)

Calculating the Net Tax Gap

Nonfiling
Underreporting
+ Underpayment
Gross Tax Gap
– **Enforced & Other Late Payments**
Net Tax Gap

Total True Tax Liability	Tax Paid Voluntarily & Timely	Gross Tax Gap: Nonfiling	Gross Tax Gap: Underreporting	Gross Tax Gap: Underpayment	Gross Tax Gap	Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
$4,635	$3,939	$63	+ $539	+ $94	= $696	− $90	= $606
By Type of Tax							
Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax
$2,557	$2,042	$53	+ $381	+ $80	= $514	− $68	= $447
			Business Income $194; Non-Business Income $87; Credits $48; Income Offsets [1] $27; Filing Status $7; Other Taxes [2] $4; Unallocated Marginal Effects [3] $15				
Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax
$392	$342	#	+ $44	+ $6	= $50	− $10	= $40
			Large Corporations $25; Small Corporations $19				
Employment Tax	Employment Tax	Employment Tax [4]	Employment Tax	Employment Tax	Employment Tax	Employment Tax	Employment Tax
$1,585	$1,459	$9	+ $111	+ $6	= $127	− $8	= $119
			Self-Employment Tax $71; FICA & Uncollected FICA TAX $39; FUTA $1				
Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax
$35	$30	$1	+ $2	+ $1	= $5	− $4	= $0.4

NOTES:

* Totals include Excise Tax.

#—No estimate.

Detail may not add to totals due to rounding.

[1] Includes adjustments, deductions, and exemptions.

[2] Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported social security and Medicare tax (which are included in the employment tax gap estimates).

[3] Is the difference between (1) the estimate of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and (2) the estimate of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.

[4] Self-employment tax only.

Revised 10/2024

Table 1. Tax Gap Estimates for Tax Years 2014–2016 and Projections for Tax Years 2017–2019, 2020, 2021 and 2022

[Money amounts are in billions of dollars]

Tax Gap Component	TY 2014–2016 [2]	Projections [1]			
		TY 2017–2019 Revised [2]	TY 2020 Revised	TY 2021 Revised	TY 2022
Estimated Total True Tax	**$3,307**	**$3,644**	**$3,883**	**$4,673**	**$4,635**
Gross Tax Gap	**$496**	**$549**	**$581**	**$708**	**$696**
Nonfiling Tax Gap	$39	$41	$41	$57	$63
Underreporting Gap	$398	$444	$480	$554	$539
Underpayment Gap	$59	$64	$60	$97	$94
Voluntary Compliance Rate	**85.0%**	**84.9%**	**85.0%**	**84.9%**	**85.0%**
Enforced and Other Late Payments	**$68**	**$70**	**$80**	**$90**	**$90**
Net Tax Gap [3]	**$428**	**$480**	**$501**	**$617**	**$606**
Net Compliance Rate	**87.0%**	**86.8%**	**87.1%**	**86.8%**	**86.9%**

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

[2] The estimates and projections are the annual averages for the covered time frame.

[3] The net tax gap is the gross tax gap reduced by the amount of enforced and other late payments that will eventually be paid.

Detail may not add to total due to rounding.

Figure 2. Tax Gap and Voluntary Compliance Rate Estimates and Projections: TY 2001, TY 2006, TY 2008–2010 (Annual Average), TY 2011–2013 (Annual Average), TY 2014–2016 (Annual Average), TY 2017–2019 (Annual Average), TY 2020, TY 2021 and TY 2022

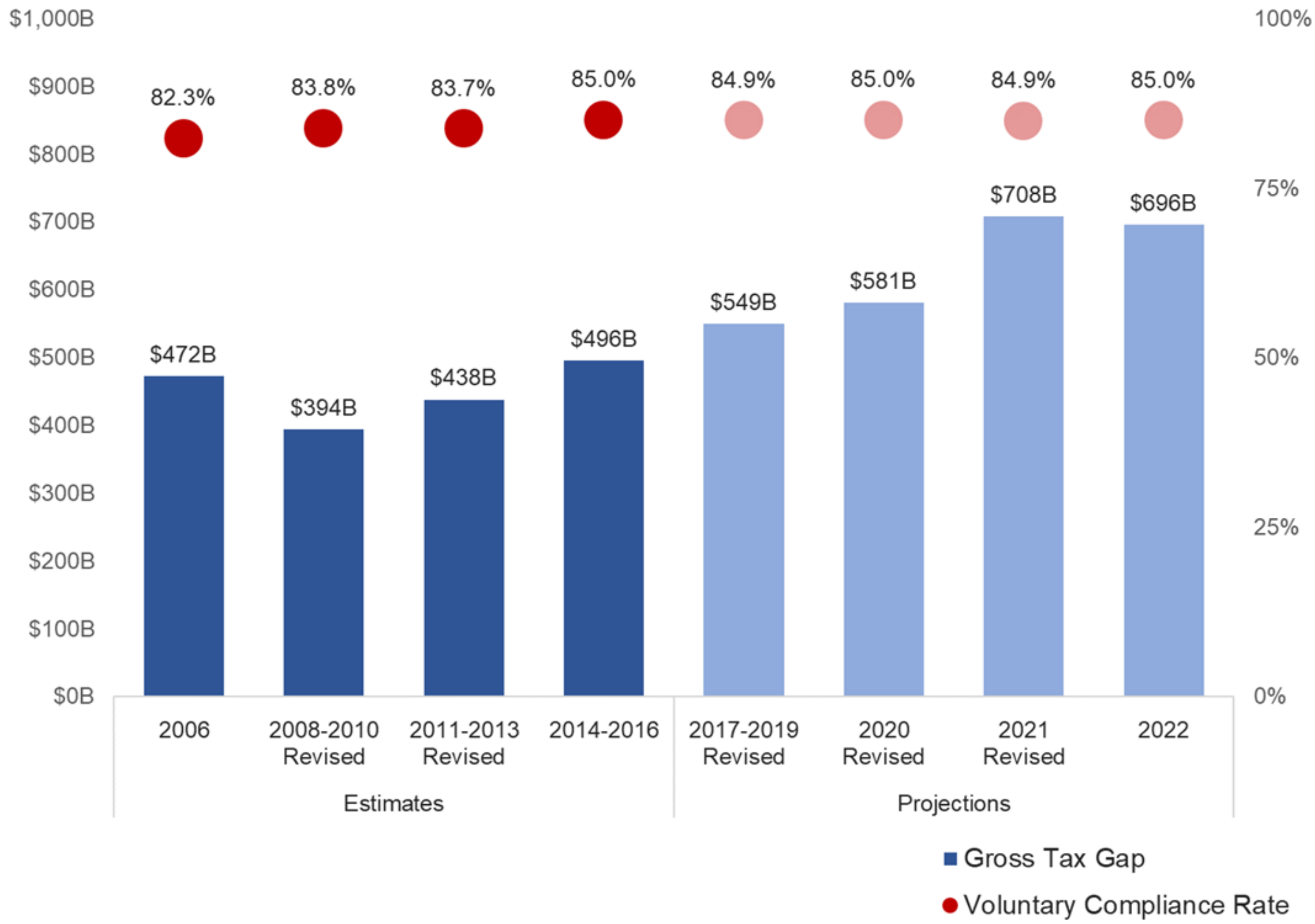


Table 2. Tax Gap Estimates for Tax Years 2014–2016 and Projections for Tax Years 2017–2019, 2020, 2021 and 2022 [1]

[Money amounts are in billions of dollars]

Tax Gap Component	TY 2014–2016 [2]	Projections [1]			
		TY 2017–2019 Revised [2]	TY 2020 Revised	TY 2021 Revised	TY 2022
Estimated Total True Tax	**$3,307**	**$3,644**	**$3,883**	**$4,673**	**$4,635**
Gross Tax Gap	**$496**	**$549**	**$581**	**$708**	**$696**
Voluntary Compliance Rate	85.0%	84.9%	85.0%	84.9%	85.0%
Enforced and Other Late Payments	**$68**	**$70**	**$80**	**$90**	**$90**
Net Tax Gap	**$428**	**$480**	**$501**	**$617**	**$606**
Net Compliance Rate	87.0%	86.8%	87.1%	86.8%	86.9%
Nonfiling Tax Gap	**$39**	**$41**	**$41**	**$57**	**$63**
Individual Income Tax	$32	$33	$32	$47	$53
Self-Employment Tax	$7	$7	$7	$8	$9
Estate Tax	[3]	[3]	$2	$2	$1
Underreporting Tax Gap	$398	$444	$480	$554	$539
Individual Income Tax	**$278**	**$311**	**$348**	**$398**	**$381**
Corporation Income Tax	**$37**	**$41**	**$37**	**$49**	**$44**
Small Corporations (assets under $10M)	$14	$19	$16	$23	$19
Large Corporations (assets of $10M or more)	$23	$22	$21	$26	$25
Employment Tax	**$82**	**$91**	**$93**	**$105**	**$111**
Self-Employment Tax	$53	$58	$59	$68	$71
Uncollected Social Security and Medicare Tax	[3]	[3]	[3]	[3]	$1
FICA and FUTA Tax	$29	$32	$34	$37	$40
Estate Tax	**$1**	**$1**	**$1**	**$2**	**$2**
Underpayment Tax Gap	$59	$64	$60	$97	$94
Individual Income Tax	$47	$53	$49	$84	$80
Corporation Income Tax	$4	$6	$6	$6	$6
Employment Tax	$5	$4	$3	$5	$6
Estate Tax	$3	$1	$1	$1	$1
Excise Tax	[3]	[3]	[3]	[3]	[3]

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

[2] These estimates and projections are annual averages for the tax year time frames.

[3] Less than $0.5 billion.

Detail may not add to total due to rounding.

Table 3. Tax Gap Projections for Tax Years 2020, 2021 and 2022 [1]

[Money amounts are in billions of dollars]

Tax Gap Component	TY 2020 Revised	Share of Gross Tax Gap	TY 2021 Revised	Share of Gross Tax Gap	TY 2022	Share of Gross Tax Gap
Estimated Total True Tax	**$3,883**		**$4,673**		**$4,635**	
Gross Tax Gap	**$581**	**100%**	**$708**	**100%**	**$696**	**100%**
Voluntary Compliance Rate	*85.0%*		*84.9%*		*85.0%*	
Enforced and Other Late Payments	**$80**		**$90**		**$90**	
Net Tax Gap	**$501**		**$617**		**$606**	
Net Compliance Rate	*87.1%*		*86.8%*		*86.9%*	
Nonfiling Tax Gap	**$41**	**7%**	**$57**	**8%**	**$63**	**9%**
Individual Income Tax	$32	5%	$47	7%	$53	8%
Self-Employment Tax	$7	1%	$8	1%	$9	1%
Estate Tax	$2	[2]	$2	[2]	$1	[2]
Underreporting Tax Gap	**$480**	**83%**	**$554**	**78%**	**$539**	**77%**
Individual Income Tax	**$348**	**60%**	**$398**	**56%**	**$381**	**55%**
Non-Business Income	$94	16%	$110	16%	$87	13%
Business Income	$158	27%	$183	26%	$194	28%
Adjustments, Deductions, Exemptions	$27	5%	$26	4%	$27	4%
Filing Status	$7	1%	$8	1%	$7	1%
Other Taxes [4]	$3	1%	$5	1%	$4	1%
Unallocated Marginal Effects [5]	$14	2%	$16	2%	$15	2%
Credits	$47	8%	$51	7%	$48	7%
Corporation Income Tax	**$37**	**6%**	**$49**	**7%**	**$44**	**6%**
Small Corporations (assets under $10M)	$16	3%	$23	3%	$19	3%
Large Corporations (assets of $10M or more)	$21	4%	$26	4%	$25	4%
Employment Tax	**$93**	**16%**	**$105**	**15%**	**$111**	**16%**
Self-Employment Tax	$59	10%	$68	10%	$71	10%
Uncollected Social Security and Medicare Tax	[2]	[2]	[2]	[2]	$1	[2]
FICA and FUTA Tax	$34	6%	$37	5%	$40	6%
Estate Tax	**$1**	**[2]**	**$2**	**[2]**	**$2**	**[2]**
Underpayment Tax Gap	**$60**	**10%**	**$97**	**14%**	**$94**	**14%**
Individual Income Tax	$49	9%	$84	12%	$80	12%
Corporation Income Tax	$6	1%	$6	1%	$6	1%
Employment Tax	$3	1%	$5	1%	$6	1%
Estate Tax	$1	[2]	$1	[2]	$1	[2]
Excise Tax	[2]	[2]	[2]	[2]	[2]	[2]

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

[2] Less than 0.5 percent or $0.5 billion.

[3] The *Other taxes* component includes the Alternative Minimum Tax, Excess APTC Repayment, and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported social security and Medicare tax (which are included in the employment tax gap estimates).

[4] The *Unallocated marginal effects* component reflects the difference between (1) the estimate of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and (2) the estimate of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line item tax gap is calculated based on the misreporting of that item only. There may be a difference whenever more than one line item has been misreported on the same return and the combined misreporting results in a higher marginal tax rate than when the tax on the misreported amounts is calculated separately.

Detail may not add to total due to rounding.

Table 4. Individual Income Tax Underreporting Tax Gap Projections by Source: Tax Years 2022 [1]
[Money amounts are in billions of dollars]

Tax Return Line Items	Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap
Gross Tax Gap	**$696**	**100%**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$381**	**55%**	**100%**
Items Subject to Substantial Information Reporting and Withholding	**$9**	**1%**	**2%**
Wages, salaries, tips	$9	1%	2%
Items Subject to Substantial Information Reporting	**$22**	**3%**	**6%**
Interest income	$1	[2]	[2]
Dividend income	$2	[2]	[2]
State income tax refunds	[2]	[2]	[2]
Pensions & annuities	$9	1%	2%
Unemployment Compensation	[2]	[2]	[2]
Taxable Social Security benefits	$10	1%	3%
Items Subject to Some Information Reporting	**$71**	**10%**	**19%**
Partnership, S-Corp, Estate & Trust, etc.	$42	6%	11%
Alimony income	[2]	[2]	[2]
Capital gains	$30	4%	8%
Items Subject to Little or No Information Reporting	**$179**	**26%**	**47%**
Form 4797 income	$5	1%	1%
Other income	$21	3%	6%
Nonfarm proprietor income	$117	17%	31%
Farm income	$7	1%	2%
Rents & royalties	$28	4%	7%
Total Credits	**$48**	**7%**	**12%**
Child Tax Credit and Additional Child Tax Credit	$17	2%	4%
EITC	$24	4%	6%
Education Credits	$3	[2]	1%
All Other Credits	$3	[2]	1%
Other Taxes	**$4**	**1%**	**1%**
Unallocated Marginal Effects	**$15**	**2%**	**4%**
Income Offsets (Adjustments, Deductions, Exemptions)	**$27**	**4%**	**7%**
Filing Status	**$7**	**1%**	**2%**

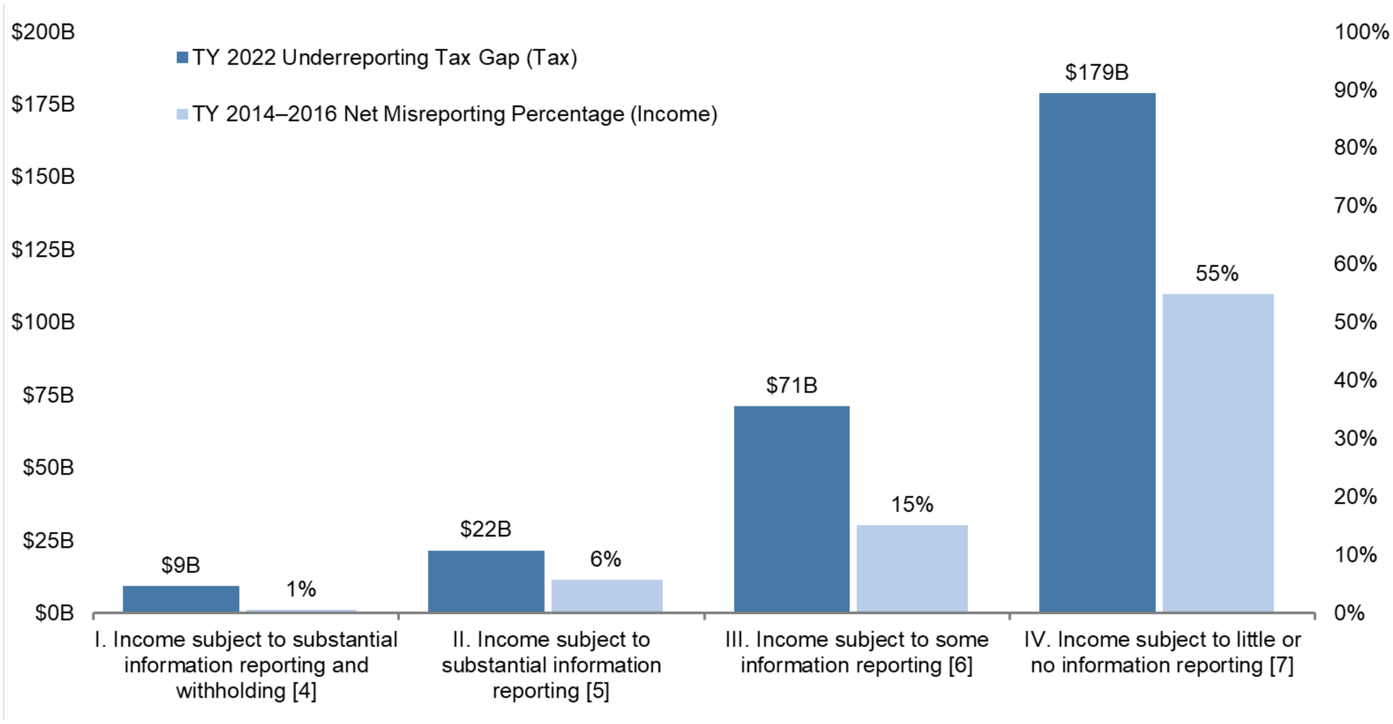
N/A—Not applicable.

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

[2] Less than 0.5 percent or $0.5 billion.

Figure 3. Effect of Information Reporting on Individual Income Tax Reporting Compliance, Tax Years 2014–2016 NMP Estimates and TY 2022 Projections

"Visibility" Chart: Tax Year 2022 [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 time frame. 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.

Table 5. Voluntary Compliance Rate Projections by Type of Tax, Tax Years 2017–2019, 2020, 2021 and 2022 [1]

Tax Gap Component	Voluntary Compliance Rates				Distribution of Liability			
	TY 2017–2019 Revised [2]	TY 2020 Revised	TY 2021 Revised	TY 2022	TY 2017–2019 Revised [2]	TY 2020 Revised	TY 2021 Revised	TY 2022
Overall (all taxes combined)	85%	85%	85%	85%	100%	100%	100%	100%
Individual Income Tax	79%	80%	80%	80%	53%	55%	58%	55%
Corporation Income Tax	87%	87%	87%	87%	10%	8%	9%	8%
Employment Tax	92%	92%	92%	92%	35%	35%	31%	34%
Estate Tax	85%	83%	85%	87%	1%	1%	1%	1%
Excise Tax	N/A	N/A	N/A	N/A	2%	1%	1%	1%

N/A—Not applicable.

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

[2] The projections are the annual averages for the covered time frame.

Appendix

Tax Gap Concepts: Dollar Measures

Tax gap dollar concepts are measures of the extent of noncompliance. The gross tax gap is defined as the dollar amount of true tax that is not paid on time. The gross tax gap measure is defined and estimated at an aggregate level that incorporates all types of tax and all sources of noncompliance. The gross tax gap measure is also defined and estimated by type of tax, the three primary sources of noncompliance, and other subcomponents.

Enforced and other late payments are defined as the amount of the gross tax gap that eventually will be paid. This report presents projections of the payments at an aggregate level and by type of tax.

The **net tax gap** is defined as the gross tax gap less enforced and other late payments. It is the amount of the gross tax gap that will not be paid. After subtracting projections of enforced and other late payments for each type of tax, this report presents net tax gap projections by type of tax. The use of the word "net" in this context reflects the subtraction of enforced and other late payments from the gross tax gap.

The **net misreported amount (NMA)** is a concept associated with the underreporting tax gap. The NMA is the dollar amount of misreporting associated with a particular tax return or schedule line item. Although most often an NMA reflects an amount of income, expense, or similar line item that has been misreported, the NMA is also defined for the total amount of tax misreported. Since amounts reported on tax return and schedule lines can be either positive or negative and can be overstated or understated, the actual computation depends on whether the line item is an income item or an offset item (such as a deduction, expense, or credit). For an income item, the NMA is calculated as the sum of all amounts understated minus the sum of all amounts overstated. In general, income items are underreported in the aggregate, so the NMA for income items generally is positive. For an offset item, the NMA is calculated as the sum of all amounts overstated minus the sum of all amounts understated. In general, offset items are overstated in the aggregate, so the NMA for offsets typically is positive. For this concept, the word "net" refers to the offsetting of overstated and understated amounts and not the subtraction of enforced and other late payments.

Tax Gap Concepts: Ratio Measures

Tax gap concepts include several ratio measures expressed as rates or percentages. The purpose of these measures is to provide a relative measure of compliance or noncompliance. These measures are ratios of dollar amounts in the aggregate.[7]

The **voluntary compliance rate (VCR)** is defined as the amount of tax paid voluntarily and timely divided by total true tax, expressed as a percentage. The VCR is a complement to the gross tax gap.

The **net compliance rate (NCR)** is defined as the sum of all timely and enforced and other late payments divided by total true tax, expressed as a percentage. The NCR is a complement to the net tax gap. It is also equal to one minus the ratio of the net tax gap to total true tax.

Two other measures are used only for the underreporting tax gap. The **net misreporting percentage (NMP)** for a given line item is the NMA divided by the sum of the absolute values of the amounts that should have been reported. For most return or schedule line items, amounts that should have been reported can be

[7] At a tax return level, these ratios may be undefined or have limited meaning because the numerator, denominator, or both may be zero.

positive only. However, amounts can be either positive or negative for business-related net income and certain other lines. So, for those line items where amounts can be negative, the denominator of the NMP is not the net of positive and negative amounts, but instead it is the total of all the amounts disregarding the sign in the calculation—that is, it is the sum of the absolute values. The NMP is a complement to the NMA.

The **voluntary reporting rate (VRR)** is another underreporting tax gap measure. It is a measure of the overall extent of reporting compliance for a particular type of tax. It is defined as the amount of reported tax divided by the amount of tax that should have been reported. It reflects reporting compliance on timely filed returns and is a complement to the underreporting tax gap for a particular type of tax.

Significant Tax Law and Other Changes Since Tax Years 2014–2016

Tax law and the level of economic activity can affect the tax gap. Legislation enacted in December 2017 and known as the Tax Cuts and Jobs Act (TCJA) made permanent changes to the corporation income tax and temporary changes to the individual income tax. The TCJA reduced the top corporate income tax rate from 35 percent to 21 percent. The corporation Alternative Minimum Tax was eliminated and there were rule changes for businesses regarding deductions, depreciation, expensing, credits, treatment of foreign source income, cost recovery, and accounting methods. Changes to the individual income tax made by TCJA included a general lowering of income tax rates, repeal of personal and dependent exemptions, increases in the standard deductions, elimination of or limits on certain itemized deductions, expansion of the child tax credit, and a new deduction related to pass-through business income.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020, the Coronavirus Response and Relief Supplemental Appropriations Act (CRRSAA) of 2021, and the American Rescue Plan Act of 2021 introduced temporary relief in response to the Coronavirus (COVID-19) pandemic. Given the temporary nature of these provisions and the lack of historical compliance data, the projections do not fully account for noncompliance associated with this relief.

The IRS funding in real (inflation-adjusted) dollars declined from FY 2011 through FY 2019. That trend changed as funding increased from FY 2020 through FY 2023. The Inflation Reduction Act (IRA) of 2022 provided expanded, long-term funding for the IRS. These increases in funding have the potential to impact voluntary compliance (and hence the gross tax gap) through improved services and enhanced enforcement efforts. Enhanced enforcement also has the potential to reduce the net tax gap through increased enforcement revenue. The current projections do not reflect the potential impact of changes in IRS funding; however, this funding could impact future projections and estimates.

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