

IRS finds U.S. tax evasion \$385 billion per year, sugge...

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One of the US readers of this blog, Kenneth Thomas, who writes the Middle Class Political Economist blog, [wrote the following and I reproduce it](#) with his permission as it is very apposite here:

On Friday, the IRS released [a new report on tax evasion in the U.S.](#) (via Demos' [Policy Shop](#) and h/t to @BlogWood). Using data for 2006 (its previous tax gap report used 2001 data), it found a gross tax gap (income tax due but not paid on time) of \$450 billion and a net tax gap (factoring in tax paid late) of \$385 billion for 2006, versus \$345 billion gross and \$290 billion net in 2001. This was due almost entirely to higher income and tax liability, not an increased percentage of cheating. As Policy Shop points out, over 10 years, this will get us to well over \$3 trillion in lost taxes.

[As I reported last month](#), the Tax Justice Network estimated that global tax evasion was over \$3 trillion annually. TJN's estimate for the U.S. was \$337 billion for 2010, less than the IRS figure of \$385 billion for 2006 even though GDP was higher in 2010 than 2006. Thus, the IRS figures confirm the validity of the TJN estimates. Indeed, it is quite possible that Richard Murphy's estimate in the TJN report actually understates the amount of tax evasion globally.

There are a number of eye-popping numbers in the IRS report, beyond simply the magnitude of tax evasion. Most evasion takes the form of underreporting and underpayment, not non-filing. The amount of dollars lost to underreporting rose by 32% between 2001 and 2006; one-third of that increase came in the corporate income tax. As another sign of growing inequality in the U.S., between 2001 and 2006 corporate income tax due doubled (meaning that profits approximately doubled), while individual income only rose by 15%.

Not surprising, but still striking, is what the report says about who cheats on their taxes. People subject to both information and withholding requirements only underreport 1% of their income; people or businesses subject to information reporting but not withholding misreport 8%, but entities subject to neither information or reporting requirement, "such as business income" [on the individual, not corporate, income tax] has a 56% misreporting ratio. Since middle class taxpayers mainly fall in the first group,

it is obvious that most of the opportunities for cheating belong to the wealthy.

To put this in dollar terms, of the \$450 billion gross tax gap, \$376 billion of it comes from underreporting income. \$235 billion is on individual income tax, of which \$122 billion is business income (in addition, there is another \$57 billion in self-employment tax that is underreported). Finally, \$67 billion of corporate income tax due was underreported. (And this is only illegal tax evasion. Abusive corporate tax avoidance, some of which will be declared illegal retroactively, would add many billions more.)

What rich individuals and corporations don't pay in taxes, shows up as higher taxes on the middle class, bigger budget deficits, program cuts, or some combination of the three. 2006's \$385 billion in net evasion of federal taxes would cover about 1/4 of the FY 2011 budget deficit (and, as Policy Shop notes, it exceeded the \$248 billion budget deficit of 2006). As Policy Shop says, the case for giving the IRS further resources for enforcement is a strong one, but Republicans in Congress are actually trying to reduce enforcement resources.

That opposition needs to be overcome.

Time and again people tell me and the Tax Justice Network we get things wrong and time and again we're proven to be right. I hope H M Revenue & Customs here take note: their claim that the UK tax gap is just £35 billion and is tax lost on 7% of the economy is ludicrous in the light of this US data. My own estimates of £70 billion of evasion and £25 billion of avoidance are the ones they, and government, should be working with, and even then they're running at a rate little different from the US findings.