

# Data Sharing is an Important Step Towards More Accountability for Tax Underpayments

## Position Statement in Support of House Bill 454

*Given before the House Ways and Means Committee*

When businesses and individuals fail to accurately report their income and pay the taxes that they owe, whether intentionally or unintentionally, it reduces the state's ability to pay for vital public services and ultimately harms our communities. **The Maryland Center on Economic Policy supports House Bill 454** because it lays the foundation for stronger auditing practices that can help recoup some of the billions of dollars the state likely loses in underreporting each year.

Nationally, the IRS loses nearly \$400 billion per year to underreporting, according to analysis from the Government Accountability Office<sup>1</sup>. **If Maryland has a similar underpayment rate, that would equate to \$3 billion per year in unpaid taxes.** The growing prevalence of large, complex partnership business structures and use of tax shelters, along with the complexity of performing audits on such businesses are among the contributors to the national tax gap, GAO analysis finds. Self-employment income, including newer forms of income from things like short-term rental properties, content creation, and NFT trading, can also be particularly difficult to track and audit.

HB 454 is a necessary step toward strengthening the ability of the Comptroller's Office to address underreporting and to perform more complex audits. It would allow the office to enter into data-sharing agreements with third parties. It also creates the process necessary to protect sensitive taxpayer information as the office is working with these third parties.

With the state facing significant and growing structural deficits in the years to come, recovering even a fraction of underpaid taxes could go a long way in addressing our budget needs. Addressing underreporting will also make our tax system more fair, as it increases the chances that people trying to cheat the system and avoid paying what they owe in taxes will be held accountable.

**For these reasons, the Maryland Center on Economic Policy respectfully requests that the House Ways and Means Committee make a favorable report on House Bill 454.**

## Equity Impact Analysis: House Bill 454

### *Bill summary*

House Bill 454 allows the Office of the Comptroller to enter into data-sharing agreements with certain outside parties and creates strong policies to protect taxpayer data that could be shared through these partnerships.

### *Background*

Nationally, the IRS loses nearly \$400 billion per year to underreporting, according to analysis from the Government Accountability Office. If Maryland has a similar underpayment rate, that would equate to \$3 billion per year in unpaid taxes. The growing prevalence of large, complex partnership business structures and use of tax shelters, along with the complexity of performing audits on such business are among the contributors to the national tax gap, GAO analysis finds. Self-employment income, including newer forms of income from things like short-term rental properties, content creation, and NFT trading, can also be particularly difficult to track and audit.

### *Equity Implications*

Working families and low-income taxpayers are currently more likely to be audited as is easier for the Comptroller's Office to use automated systems to detect and correct underreporting of standard wage income that is reported on a W-2 or flag individuals who incorrectly claim the Earned Income Tax Credit. House Bill 454 is an important part of the process that will level the playing field by strengthening the office's ability to perform more complex audits and catch those who are intentionally cheating the system.

Further, reducing the gap of uncollected taxes would generate revenue that could be invested into essential services including education, health care, and transportation. These services are especially vital for Marylanders who continue to suffer from the discriminatory policy that remains today. Investing in these basic services strengthens our economy and can dismantle the economic barriers that too often hold back Marylanders of color.

### *Impact*

House Bill 454 would likely **improve racial and economic equity** in Maryland.

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<sup>i</sup> U.S. Government Accountability Office, Tax Gap, <https://www.gao.gov/tax-gap>