Rep. Khanna – Stop CHEATERS Act
Stop Corporations and High Earners from Avoiding Taxes and Enforce Rules Strictly Act

Section by Section

Section 1. Short Title. The bill may be cited as the Stop Corporations and High Earners from Avoiding Taxes and Enforce Rules Strictly Act, or Stop CHEATERS Act

Section 2. Policy of Congress. States that it is the policy of Congress that the IRS should be given resources to increase audits and enforcement of tax compliance of high-income individuals to reduce the tax gap, with the emphasis on the auditing and enforcement of tax compliance by individuals with gross income of not less than $1 million and of large corporations, and to modernize its technology in order to better serve taxpayers and enforce tax laws. Supports other related policy goals.

Section 3. Additional Appropriations for the IRS
a) **Enforcement:** Provides additional enforcement funding for the IRS for the purpose of hiring staff who can carry out audits on individuals making more than $1 million in total income. The IRS would be required to use this funding to meet the following audit targets:
A) 50% of individuals making more than $10 million in total income
B) 33% of individuals making $5 million-$10 million in total income
C) 20% of individuals making $1 million-$5 million in total income
D) 95% of corporations with more than $20B in assets
E) 40% of returns with estates larger than $10 million
F) 1.2% of returns reflecting taxes related to gifts
G) .22% of tax returns filed by an employer with respect to employee compensation

Enforcement Funding: The IRS would receive $70B spread out over the course of FY22-31, with $2B for FY22 and then increased levels of investment as the program is scaled up and the absorption capacity of the IRS increases. After the first four years of establishing this program of targeting audits on high-income individuals and wealthy corporations, the IRS would receive $8.5B each year from FY26-31.

b) **Taxpayer Services:** Provides $20B in funding for taxpayer services, spread out over 10 years, with $1B for FY21 and then increased levels of investment as the program is scaled up and absorption capacity of the IRS increases. After the first four years of establishing this program, the IRS would receive $2.5B each year from FY26-31.

c) **Operations Support:** Provides $10B in funding for operations support spread out over the course of FY22-31 to upgrade the decades-old IT systems at the IRS to improve the capacity of the IRS to detect fraud related to income from a trade or business. The IRS would receive $1B each year from FY26-31.

Section 4: Returns Related to Certain Business Transactions

This section would prevent tax filers in the top 3% of annual gross income from hiding their business income generated by "pass-through" businesses, by:

- Requiring individuals whose taxable income is above $400,000 AND who have received additional income from sources not previously disclosed to the IRS would have to disclose their business income on a new 1099 report.
- The report would also be required for all "pass-through" entities who had an ownership interest held by the individual taxpayers above $400,000 in annual gross income.

Background: Most US businesses are not subject to the corporate income tax; rather, their profits "pass-through" to owners or members and are taxed under the individual income tax. Pass-through businesses include sole proprietorships, partnerships, limited liability companies, and S-corporations. Pass-through businesses are responsible for a significant share of the tax gap. About 41% of the tax gap from 2008-2010, or $190 billion, was due to pass-throughs underreporting income and thus paying too little income tax.

Process:

- The IRS would be responsible for determining which taxpayers (individual filers and pass-through entities would be covered by the new 1099 reporting requirement.
- Taxpayers required to file the new 1099 would need to use the information return in the same way as all other taxpayers using 1099's to assist in filing an accurate return. They would be required to include with their return reconciling the 1099's with their return.
- The IRS would analyze all the individual and pass-through returns filed in the previous tax year, determining which returns qualified for the information reporting based on the $400,000 AGI limit and presence of low visibility income and ownership interest in pass-through entities
- Treasury regulations would specify the types of amounts and financial institutions covered by the reporting requirement.
    - Once a year, the covered financial institutions would provide the IRS a file containing a complete list of the specified types of accounts with corresponding taxpayer ID numbers. No financial information would be provided.
    - By matching this universal account file with its selected set of returns, the IRS would then provide the financial institutions a list of accounts for which the 1099 new information return should be provided
    - The financial institutions would provide the designated taxpayers and the IRS a new 1099 for all the identified accounts the following year in the same manner as for all other 1099's.

Section 5: IRS Reports to Congress

Requires an IRS report to Congress 1 year after enactment and every 2 years thereafter on:

- a comprehensive description of the IRS plan and its progress toward shift more of the auditing and enforcement assets of the IRS toward high-income tax filers and recruit and retain auditors with the skills necessary to audit high-income individuals.
- an estimate of revenue loss from offshore tax evasion
- information with respect to revenue loss due to such tax evasion, organized by groups of taxpayers arranged by the true income level of such taxpayers, as determined by the Secretary

Section 6: IRS Enforcement Penalties Increased for Certain Taxpayers

This section would ensure that millionaires who falsify their tax returns to pay less than is legally owed would face an additional fine of a percentage of the underpayment (the amount legally owed). That percentage would be tiered by income:

A) taxpayers with a taxable income of $1-2 million would be fined an additional 20% of the underpayment

B) taxpayers with a taxable income in $2-5 million would be fined an additional 30% of the underpayment

C) taxpayers with a taxable income greater than $5 million would be fined an additional 40% of the underpayment

Effective date: Section 6 would apply to returns with a due date that is after December 31, 2022.