

## Hunting Tax Cheats, I.R.S. Vows To Focus More Effort on the Rich

By DAVID CAY JOHNSTON

The Internal Revenue Service said yesterday that it intended to go after tax cheats in a new way, easing its examination of ordinary wage earners and devoting more of its attention to wealthy taxpayers suspected of hiding income received from their businesses, partnerships, investments and offshore accounts.

The agency said it had already begun to focus on promoters of abusive tax schemes, from those selling sophisticated strategies involving currency trades to those saying that people should refuse to pay taxes by claiming that they are voluntary. The I.R.S. said it had developed a secret statistical technique to identify taxpayers who fail to report their

full income.

At the same time, far fewer wage earners, whose incomes are reported to the government by their employers, will be audited, especially if they make less than \$100,000.

Charles O. Rossotti, the I.R.S. commissioner, said in an interview that the point of the new policy was "to protect the crown jewel, which is the fairness and faith the honest taxpayer has in the system." He said there was mounting evidence of cheating that the agency was failing to detect. And even when it did detect it, he added, the agency often failed to collect the taxes owed. And that, he said, undermines confidence in the tax system and costs the government much revenue.

Mr. Rossotti said criticism of the way the agency allocated its auditing staff was valid, and he said he had been working on the problem for a long time.

Articles in The New York Times this spring reported that the agency was looking for tax cheating by wage earners far more carefully than by those whose income comes from their own businesses and investments, which usually provide much greater opportunity to cheat. Other articles showed that the working poor are audited far more often than high-income taxpayers.

Mr. Rossotti said the I.R.S. was applying its shriveling enforcement resources in areas that were becoming less productive, opening opportunities for tax cheats in other areas.

Mr. Rossotti said auditing, other

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## Plaid's Out, Again, As Schools Give Up Requiring Uniforms

By KATE ZERNIKE

CANYON COUNTRY, Calif. — They tried hard to keep school uniforms going. They relented on the requirement for the logo. They allowed casual Fridays. They phoned every parent in a school of 1,300 students and reminded them that uniforms were mandatory — though yes, there was the opt-out provision for anyone who really objected.

But soon, teachers were wasting the first 10 minutes of class trying to figure out who had waivers and who was breaking the rules. The rule breakers were crowding the principal's office. By last spring, with only 200 students wearing uniforms, officials at Sierra Vista Junior High did what had come to seem inevitable:

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**14 Migrants Drown in Maine**

# I.R.S., in a Shift, to Focus On Wealthier Tax Cheats

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than of the working poor, was based on data from the 1980's "even though we have undergone tremendous changes in our economy." These changes have their greatest effect on nonwage income.

He said a growing number of audits were finding people who either owed no additional taxes or even owed less than they had paid, a result of heavy reliance on a statistical technique designed to look for inflated deductions that was based on the outdated research.

Mr. Rossotti said that a strategy to reduce audits of the working poor who claimed the earned-income tax credit was being developed. Much of the auditing found errors caused by the complex requirements for the credit. The I.R.S. also found evidence of fraud by some tax preparers. Last year, one in 47 people who claimed the credit were audited, compared with one in 127 taxpayers making more than \$100,000.

Mr. Rossotti would not provide details of how — and how many — I.R.S. employees would be redeployed, except to say that several hundred revenue agents would be trained as fraud specialists.

But Mr. Rossotti acknowledged that not all tax cheats could be pur-

**Hundreds of agents will be trained as fraud specialists.**

sued, even if they were identified. The agency's auditing staff has shrunk by 29 percent since 1995, while the number of tax returns has

macy, and maybe more than a veneer.

"In some cases they have actually come up with devices that work," he added, because Congress did not anticipate every technique when writing the tax laws.

"Basically we want to be in conformity with what the real world is like," he said, using new research to focus on "the characteristics of people who are abusing the tax system."

The changes have already begun, he said, but it will take two years to complete the change in strategy. Mr. Rossotti's five-year term ends in November.

As an example, Mr. Rossotti noted that MasterCard records, obtained by court order, indicate that one million to two million Americans have credit cards from offshore banks. While many of these cards may be legitimate, he said that such cards offer a simple way to evade taxes.

The I.R.S. is now seeking information from airlines, hotels and other places where these credit cards were used so that the agency can identify individuals whose tax returns should be examined further.

That kind of auditing is much more difficult, and costly, than pursuing wage earners who fudge the amount of their charitable giving or property taxes.

A continuing national research effort that Mr. Rossotti has nurtured should, he said, help the I.R.S. identify shifts in tax cheating in the years ahead. He said research was helping the agency identify such growing problems as abuses involving employee leasing to evade payroll taxes.

He said recent civil court actions to force promoters of abusive tax schemes to turn over lists of customers are already proving their worth. After the client list of one promoter was obtained, Mr. Rossotti said, a taxpayer filed amended tax returns for the last two years and attached a

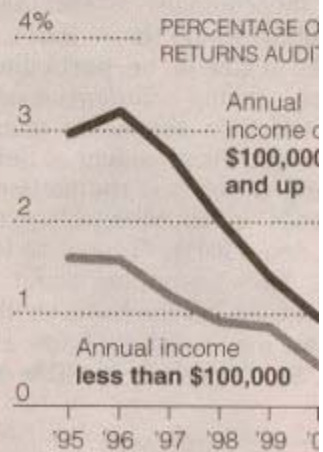


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Charles O. Rossotti said he had to protect the faith that taxpayers have in the system.

## Almost Equal Odds In Audit Gamble

The rate at which higher-income taxpayers are audited has fallen to almost the same level as those in the lower-income tax bracket.



Source: Internal Revenue Service

The New

after "those who say stunk