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IRS promises to crack down on tax cheats

Gap between taxes owed, paid: \$350 billion

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There's a new, bolder Internal Revenue Service. As Americans submit their 1040s this year, the IRS is planning more audits and more criminal prosecutions of anyone trying to hide money from Uncle Sam.

It's a reaction to a growing number of tax havens and schemes that cost the U.S. government more than \$250 billion each year.

Richard Yancy knows what it's like to be the most feared man in town. For 12 years, he was an IRS agent, going after tax cheats.

"I learned very quickly that the best way to accomplish your job was to use these techniques of finding what someone really loves, or is attached to, and taking it," says Yancy.

But in 1998, after hearing countless stories of an agency run amok, Congress ordered the IRS to back off and fire agents who harass taxpayers.

Critics say the new kinder, gentler IRS went too far, cutting its enforcement staff by a quarter. Audits dropped by more than half in three years. Property seizures dropped too, from more than 10,000 in 1997 to only 440 last year.

The result, says IRS Commissioner Mark Everson: Uncle Sam — and the taxpayer — got short changed.

"This was just catastrophic in the sense that this was the same time that corporate governance was going off track and corporate tax shelters, individual tax shelters, were just getting out of control," says Everson. "So we let up at just the wrong time."

And that has led to an IRS shortfall. The amount of money the IRS should collect annually, but doesn't, stands at roughly \$350 billion. That's almost 80 percent of this year's federal deficit and it leaves the honest taxpayer paying an extra \$2,000 a year to make up the difference.

Now, the IRS is stepping up enforcement, including adding more agents, conducting more audits and targeting corporations — the wealthy and small business owners who illegally hide income.

"The vast majority of Americans pay taxes honestly and accurately," says Everson. "They have every right to expect that neighbors and competitors do the same."

But the IRS' independent taxpayer advocate, Nina Olsen, says the IRS should not revert to its old tactics.

"You need to be thinking of taxpayers as people complying with the law until it's been proven otherwise," says Olsen.