Montgomery GI bill will increase as more veterans become eligible.

Veterans who have incurred injuries or illness while in service are entitled to service-connected compensation. The amounts are determined by disability ratings. Death compensation or dependency and indemnity compensation is paid to survivors of veterans who died as a result of service-connected causes.

War veterans who have become permanently and totally disabled from non-service-connected causes, and to survivors of war veterans may receive means-tested veterans' pensions. Benefits are based on family size, and the pensions provide a floor of income.

Veterans Benefits and Services: Outlays and Recipients, 1975–98

Fiscal year	Compensation and pensions	Readjustment, education, job training	Medical programs	Housing loans
Outlays (millions)				
1975	$ 7,860	$4,593	$3,665	N.A.
1980	11,688	2,342	6,515	N.A.
1985	14,714	1,059	9,547	N.A.
1990	15,241	278	12,134	N.A.
1995	18,966	1,124	15,981	N.A.
1996	17,170	1,106	16,372	$32,609
1997	19,389	1,167	17,149	27,042
1998	19,617	1,429	17,441	37,906
Recipients ('000s)				
1975	4,855	2,804	1,985	290
1980	4,646	1,232	2,671	297
1985	4,005	491	2,963	179
1990	3,614	329	3,018	196
1995	3,332	476	2,859	263
1996	2,253	297	2,937	321
1997	2,200	N.A.	3,142	259
1998	2,700	N.A.	3,431	344

Source: U.S. Dept. of Veterans Affairs, *Annual Report of the Secretary of Veterans Affairs.*

Medical programs The VA operates 172 hospital centers, 132 nursing homes, 40 domiciliaries, and 398 outpatient clinics. In 2000, the VA expected to treat about 673,000 patients in VA hospitals and another 111,000 in nursing homes. The VA extends free priority care to service-connected disabled veterans, to veterans in special categories, and to needy non-service-connected veterans. As facilities and other resources permit, the VA provides care to non-service-connected veterans with incomes that exceed the mandatory care income limits.

Housing and loan programs Since 1944, the VA has guaranteed more than 16.2 million loans totaling over $661 billion. The maximum guaranty is as follows: 50 percent of the loan amount for loans of $45,000 or less; $22,500 for loans between $45,001 and $56,250; the lesser of $36,000 or 40 percent of the loan for loans between $56,251 and $144,000; and the lesser of $46,000 or 25 percent of the loan for loans in excess of $144,000.

Other veterans' programs Since 1944, when the Montgomery GI Bill became law, more than 20 million veterans and military personnel have benefited from its education and training programs. Contributions are required, and veterans can receive a basic educational benefit of up to $400 per month for 36 months while in an educational program. The total cost of this program is more than $73 billion.

The Veterans Job Training Act program provides payments to defray training costs of employers who hire certain veterans of the Korean conflict or Vietnam era who have been unemployed for long periods of time.

THE INTERNAL REVENUE SERVICE

Founded in 1862, the Internal Revenue Service (I.R.S.) is the office of the Department of the Treasury charged with collecting Federal taxes. The Constitution empowers Congress to levy excise taxes and—in emergencies—to raise direct taxes. Congress's right to levy taxes on the income of individuals and corporations was contested throughout the 19th century, but that authority was written into the Constitution with the passage of the 16th Amendment in 1913. Today, the source of most of the Federal Government's revenues are the individual income tax, corporate income tax, excise taxes, estate taxes, and gift taxes. The I.R.S. is responsible for these taxes as well as for collecting employee and employer payments for social insurance and retirement insurance (see "Social Insurance Programs").

In 1998, Congress enacted a major overhaul of the I.R.S. in hopes of transforming the agency from a menacing symbol of Government authority into a resource for taxpayers trying to cope with the increasingly bewildering tax code. The legislation established an outside board with broad authority to supervise the I.R.S.'s operations, and perhaps more important, shifted the burden of proof in tax dispute cases to the I.R.S. (previously, taxpayers had to prove their innocence).

Initial reaction to the legislation was overwhelmingly favorable. But tax experts correctly predicted the law would give scofflaws greater incentive to cheat on their taxes. Property seizures dropped by 98 percent between 1997 and 1999, garnishments of bank accounts and paychecks were a quarter of their level two years earlier, and tax liens, which insure that back taxes are paid when properties are sold, were down by 67 percent.

But the most damaging change was the anti-harassment section of the legislation, which tax collectors say is thwarting them from collecting taxes from delinquent filers. Several I.R.S. agents said they no longer pursued outstanding tax bills vigorously because they feared losing their jobs under the anti-harassment policy.

"If you don't want to pay your taxes today all you have to do is say two magic words: installment agreement," said one I.R.S. collection officer in Washington state who spoke on condition of anonymity because he feared retaliation by supervisors.

"You just say you want one, and even if the terms you propose are ridiculous—like $10 a week when you owe tens of thousands—collection stops while your proposal goes up and down the chain of managers, until 90 days later you are told no," the I.R.S. employee said. "Then you just need to say another magic word—harassment—and because of this new law, the collection process stops while your complaint gets reviewed."

"Basically there is no enforcement going on right now, and that undermines the whole tax system," said Montie Day, a former I.R.S. criminal investigator and Federal prosecutor who now regularly sues the I.R.S. on behalf of taxpayers. "As word about this gets out, people who are inclined to cheat will say to themselves that since they aren't going to be made to pay up, they should cheat."

The decline in aggressive pursuit of tax cheats actually began even before the new law went into effect. In 1996, the I.R.S. audited 2.13 million of the 155 million tax returns filed, a rate of 1.38 percent. Two years later, the agency examined only half as many returns (1.36 million, out of a total of 161 million filed, or 0.8 percent). Almost all of the decrease in audits came in individual returns. The I.R.S. audited just under 2 million individual returns in 1996; in 1998, that number was down to 1.2 million. The agency also eased up on corporate tax filings. It audited only 54,051 corporate returns out of a total of 2.6 million filed (2.1 percent), down from 69,650 the year before (2.67 percent).

The shift can also be seen in the number and distribution of I.R.S. employees. Total I.R.S. employment dropped from 102,082 in 1996 to 97,375 in 1998, but that's only half the story. The number of tax collectors dropped 34 percent from 17,610 to 11,621, while the number of auditors and tax examiners fell 22 percent, from 27,433 to 21,458. Meanwhile, the I.R.S.'s customer service staff skyrocketed from 1,777 employees in 1996 to a whopping 12,216 in 1997, and then nearly doubled again to 21,328, in 1998. That's a 1,300 percent increase in just two years.

For now, the shift in emphasis hasn't hurt the Federal coffers. The I.R.S. collected more total tax dollars ($1.77 billion) and more taxes per capita ($6,522) in 1998 than ever before. The cost of collecting $100, meanwhile, dropped from an all-time high of 60 cents in 1993 to 43 cents in 1998, about the same as it was in 1967. One example of the I.R.S.'s economical use of resources: it examined 38.6 percent of the 8,500 returns filed by corporations with total revenues of $250 million or more, resulting in $11.3 billion in additional taxes and penalties, or more than $670,000 per audit. The other closely monitored group of tax returns is from estates valued at $5 million or more. There

Internal Revenue Collections, 1998 (thousands of dollars)

Type of return	Gross collections	Refunds[1]	Net collections: Amount	Net collections: Percent of total
Corporation income taxes	$213,270,011	$25,424,094	$187,845,917	11.6%
Individual income taxes[2]	928,065,856	120,354,9103	807,710,946	50.0
Employment taxes, total	557,799,193	4,485,820	553,313,373	34.2
Estate and gift taxes	24,630,962	560,682	24,070,280	1.5
Excise taxes	45,642,716	1,568,321	44,074,395	2.7
Grand total	**$1,769,408,739**	**$152,393,827**	**$1,617,014,912**	**100.0%**

1. Excludes excise taxes paid to the Customs Service and Bureau of Alcohol, Tobacco and Firearms. Excludes interest paid on refunds. 2. Includes Presidential Election Campaign Fund contributions of $63.3 million.. Source: Internal Revenue Service, *1998 Data Book* (2000).

Tax Rate Schedules

Taxable income	What you pay
Single individual	
$ 0- $25,750	15% of sum over $0
$ 25,750- $62,450	$3,862.50 + 28% of sum over $25,750
$ 62,450-$130,250	14,138.50 + 31% of sum over $62,450
$130,250-$283,150	35,156.50 + 36% of sum over $130,250
over $283,150	90,200.50 + 39.6% of sum over$283,150
Heads of Households	
$ 0- $ 34,550	15% of sum over $0
$ 34,550- $ 89,150	$5,182.50 + 28% of sum over $34,550
$ 89,150- $144,400	20,470.50 + 31% of sum over $89,150
$144,400- $283,150	37,598.00 + 36% of sum over $144,400
over $283,150	87,548.00 + 39.6% of sum over $283,150
Married Individuals filing jointly, or qualifying widow(er)	
$ 0- $ 43,050	15% of sum over $0
$ 43,050- $104,050	$6,457.50 + 28% of sum over $43,050
$104,050- $158,550	23,537.50 + 31% of sum over $104,050
$158,550- $283,150	40,432.50 + 36% of sum over $158,550
over $283,150	85,288.50 + 39.6% of sum over $283,150
Married, Filing Separate Return	
$ 0- $ 21,525	15% of sum over $0
$ 21,525- $ 52,025	$3,228.75 + 28% of sum over $21,525
$ 52,025- $ 79,275	11,768.75 +.31% of sum over $52,025
$ 79,275- $141,575	20,216.25 + 36% of sum over $79,275
over $141,575	42,644.25 + 39.6% of sum over $141,575

Source: Internal Revenue Service