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Internal Revenue Service Appropriations, FY2020

Overview

The Internal Revenue Service (IRS) has two primary statutory responsibilities: (1) to collect most of the revenue required to fund the federal government agencies and programs, and (2) to enforce taxpayer compliance with federal tax laws and regulations. In FY2018, the agency processed 250.3 million tax and information returns (not including Form 1099 returns) and collected $3.5 trillion in gross revenue.

Appropriations provide the vast share of operating funds for the IRS. In FY2018, 93% ($11.4 billion) of its budget came from appropriations. The remaining 7% ($850 million) stemmed from several sources, over which the IRS has unlimited authority regarding the use of the funds: reimbursements from other government agencies for services rendered by the IRS, offsetting collections, user fees, and carryovers of unobligated balances from previous years.

Historically, IRS's appropriated funds have been distributed among four accounts: taxpayer services (TS), enforcement, operations support (OS), and business systems modernization (BSM). As **Table 1** shows, enforcement represented 43% of the $11.303 billion in enacted appropriations for FY2019, followed by OS (33%), TS (22%), and BSM (1%). Congress included another $77 million in FY2019 to allow the IRS to continue implementing the many changes to the federal tax code made in 2017 by P.L. 115-97.

The Trump Administration requested $11.472 billion in appropriations for the IRS in FY2020, or $169 million more than the enacted amount for FY2019. This increase represented the net result of cost savings from several efficiency measures and the discontinuation of the $77 million in funding for implementing the provisions of P.L. 115-97, and added spending of $180 million for the BSM program, $34 million for enhanced data analytics, $22.5 million for identity theft prevention, and $107 million for cybersecurity enhancement and maintaining and upgrading IRS's information systems.

In addition, the Administration requested additional funding in FY2020 for enforcement activities ($200 million) and operations support ($162 million) through a program integrity cap adjustment under Section 251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985 (BBEDCA; P.L. 99-177). Congress would have had to approve the adjustments before the associated funds could be spent. The added funds, along with proposed cap adjustments in future years, would have been used to pay for "continuing investments in expanding and improving the effectiveness and efficiency of the IRS's overall tax enforcement program." According to the IRS budget request, these investments would have resulted in a gross revenue gain of $47.1 billion over 10 years, at a total cost of $14.5 billion, yielding a net revenue gain of $32.6 billion. This estimate did not account for the revenue effects of added enforcement initiatives on taxpayer noncompliance.

At the end of 2019, the Consolidated Appropriations Act, 2020 (P.L. 116-93) was enacted. It appropriated $11.511 billion for the IRS, which was $39 million (0.3%) more than the budget request and $208 million (1.8%) more than the enacted amount for FY2019.

The same act mandated a 3.1% pay increase for federal civilian workers. Given that two-thirds of the IRS's budget goes to employee compensation, the pay increase might effectively absorb much of the 1.8% increase in IRS appropriations in FY2020.

Table 1. IRS's FY2019 and FY2020 Appropriations, Excluding Nonappropriated Funds
(millions of dollars)

Account	FY2019 Enacted	FY2020 Request	FY2020 Enacted
Taxpayer Services	$2,492	$2,402	$2,512
Enforcement	4,860	4,705	5,010
Operations Support	3,724	4,075	3,809
Business Systems Modernization	150	290	180
Administrative Provision	77	—	—
Total	**$11,303**	**$11,472**	**$11,511**

Sources: IRS's FY2020 Budget Justification and Consolidated Appropriations Act, 2020 (P.L. 116-93).

Individual Appropriations Accounts

Taxpayer Services

The Administration's FY2020 budget request included $2.402 billion for TS. Of the requested amount, $8.9 million was set aside for the Tax Counseling for the Elderly Program (TCEP); $12 million for low-income taxpayer clinic (LITC) grants; $15 million for matching grants under the Community Volunteer Income Tax Assistance (VITA) program (available until September 30, 2021); and $206 million for the Taxpayer Advocate Service (TAS), of which

$5 million was designated for cases involving refund fraud tied to taxpayer identity theft.

Under the Consolidated Appropriations Act, 2020 (P.L. 116-93), the IRS will receive $2.512 billion for TS, or $20 million more than the enacted amount for FY2019. Of that amount, $11 million is to be used for the TCEP, $12 million for LITC grants, $25 million for VITA matching grants (available until the end of FY2021), and $209.0 million for the TAS ($5.5 million of which is for casework on refund fraud tied to identity theft.).

Enforcement

The Administration requested $4.705 billion in appropriations for IRS enforcement activities in FY2020, or $155 million less than the enacted amount for FY2019. Of that amount, $60.3 million was set aside for the Interagency Crime and Drug Enforcement program (ICDEP). Another $200 million, for reducing the federal tax gap, would have come from a requested program integrity cap increase under the BBEDCA.

P.L. 116-93 provides the IRS with $5.010 billion in appropriated funds for enforcement in FY2020, or $150 million more than the enacted amount for FY2019. None of the funding is tied to a program integrity cap adjustment. Of that amount, $250.0 million is to remain available until the end of FY2021; $60.257 million is set aside for ICDEP; and $15.0 million is for the acquisition of "investigative technology" by the IRS's Criminal Investigation Division (in addition to any funding it receives under the OS appropriations account).

Operations Support

The Administration asked for $4.075 billion in appropriations for OS in FY2020, or $351 million more than the enacted amount for FY2019. Of the requested amount, $250 million would have been available for obligation through the end of FY2021. The budget request also called for a program integrity cap increase of $162 million for the OS account to reduce the federal tax gap.

The Consolidated Appropriations Act, 2020, provides $3.809 billion in appropriated funds for FY2020, or $85 million more than the enacted amount for FY2019. None of the funding comes from a program integrity cap adjustment. Of that amount, $250 million is available for obligation until the end of FY2021; $10 million is set aside for equipment and the construction, repair, and renovation of facilities; $1 million is designated for research through the end of FY2022; and $10 million is for the IRS to modify the federal System for Award Management to allow entities registering or renewing their registration with the system to request an electronic verification of whether they have "seriously delinquent tax debt."

The act also directs the IRS to submit quarterly reports to the House and Senate Appropriations Committees and the U.S. Comptroller General concerning the cost and performance schedule for major information technology (IT) investments. In addition, the IRS is required to include similar information in its FY2021 budget request.

Business Systems Modernization

Under the Administration's budget request, the BSM program would have received $290 million in appropriations for FY2020, or $140 million more than the enacted amount for FY2019. The requested funds were available for obligation through the end of FY2022.

P.L. 116-93 provides the IRS with $180 million for the BSM program in FY2020, or $30 million more than the enacted amount for FY2019. The funds will be available through the end of FY2022 for the purchase of IT systems. The IRS is required to prepare quarterly reports on the cost and performance schedule for major IT investments made by the BSM program for both appropriations committees and the U.S. Comptroller General.

Administrative Provisions

The budget request and the appropriations act contain a number of administrative provisions (or policy riders) that provide additional guidance to the agency on how it should use its appropriated funds. Most of these provisions do not change from year to year and appear to enjoy bipartisan backing. They address issues such as training programs for IRS employees on taxpayer rights; the protection of the confidentiality of taxpayer information; improving toll-free phone service for taxpayers; criteria for attending conferences and rehiring former IRS employees and awarding employee bonuses; and targeting individuals because of their religious or political beliefs.

The budget request included three new provisions. Two of them (§108 and §109) would have restored "streamlined critical pay authority" for the IRS through the end of FY2023. This authority, which lapsed in 2013, would enable the IRS to hire up to 40 persons with needed information technology skills for up to four years at a salary above the federal General Schedule pay scale for career employees. A third provision (§110) would allow the IRS to reallocate up to $10 million in appropriations to meet changing priorities, without prior congressional approval.

P.L. 116-93 contains none of those provisions. Nor does it include an administrative provision barring the IRS from using appropriated funds to create prefilled (or prepopulated) tax returns for individuals with relatively uncomplicated tax situations. Such a prohibition has been part of each appropriations act including the IRS in recent years.

A key issue behind this prohibition was the ability of the IRS to provide free direct online tax filing that does not conflict with the agency's obligations under the Free File program (FFP). Since its start in 2003, the FFP has prevented the IRS from developing and implementing its own direct online filing system. There is disagreement among Members of Congress over whether to permanently extend the current FFP. The House-passed version of H.R. 1957, which eventually became the Taxpayer First Act (P.L. 116-25) included a provision that would have done so. But at the insistence of some Senators, the provision was dropped from the version signed into law.

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