



November 22, 2021

Internal Revenue Service Appropriations, FY2022

Overview of the Budget Request

The Internal Revenue Service (IRS) has two primary responsibilities: (1) to collect most of the revenue to fund federal government agencies and programs, and (2) to enforce taxpayer compliance with federal tax laws. According to the IRS Data Book, in FY2020, the agency processed over 240 million tax returns and 3.4 billion information returns, collected nearly \$3.5 trillion in gross revenue, and issued \$736 billion in refunds to all types of taxpayers.

The IRS's operating budget consists mostly of annual appropriations. In FY2020, 93.5% (\$11,510 million) of its operating budget came from appropriations. The remaining 6.5% (\$787 million) consisted of (1) reimbursements from other government agencies for services rendered by the IRS, (2) offsetting collections, (3) user fees, and (4) carryovers of unobligated balances from previous years. Current law gives the IRS considerable control over how nonappropriated funds are used.

Historically, IRS appropriations have been distributed among four accounts: taxpayer services (TS), enforcement (ENF), operations support (OS), and business systems modernization (BSM). As **Table 1** shows, enforcement accounted for \$5,231 million (43.7%) of the \$11,919 million in enacted appropriations for FY2021, followed by OS (33.0%), TS (21.4%), and BSM (1.9%).

The Biden Administration is requesting \$13,157 million in IRS appropriations for FY2022, or \$1,238 million (10.4%) more than the enacted amount for FY2021. Relative to FY2021, requested BSM funding is \$82 million (36.8%) greater; requested TS funding is \$385 million (15.1%) greater; requested OS funding is \$520 million (13.2%) greater; and requested ENF funding is \$250 million (4.8%) greater.

The figures in **Table 1** do not include a proposed \$417 million program integrity cap adjustment for nondefense discretionary spending under the Budget Control Act of 2011 (BCA; P.L. 112-25, as amended). Such an adjustment would allow Congress to increase allocations of annual appropriations for particular purposes. One purpose is federal agency activities to maintain a program's "integrity" by enforcing compliance with its regulations. The IRS's enforcement actions are not considered a qualified purpose under current law.

According to budget documents, the proposed \$417 million cap adjustment in FY2022, together with the proposed annual cap adjustments through FY2031, could produce a net revenue gain of \$43.6 billion in that period. This estimate may understate the revenue impact from increased enforcement, as it does not include any gain in tax revenue from the impact of enhanced enforcement activities on noncompliant taxpayers.

The FY2022 budget proposal includes \$176.1 million to implement numerous changes in how the IRS interacts with taxpayers that were mandated by the Taxpayer First Act (P.L. 116-25). Among the changes are creating an internet platform for filing Form 1099s, achieving 100% e-filing by tax-exempt entities, and developing uniform standards for electronic signatures.

Table 1. IRS's FY2021 and FY2022 Appropriations, Excluding Nonappropriated Funds
(millions of dollars)

Account	FY2021 Enacted	FY2022 Request	FY2022	
			H.R. 4502	FY2022 S. 3179
TS	\$2,556	\$2,941	\$2,941	\$2,941
ENF	5,213	5,463 ^a	5,463 ^a	5,463 ^a
OS	3,928	4,448 ^b	4,448 ^b	4,448 ^b
BSM	223	305	305	305
Total	\$11,919	\$13,157	\$13,157	\$13,157

Sources: IRS's FY2022 Budget Justification, Consolidated Appropriations Act, 2021 (P.L. 116-260), Division D of H.R. 4502 as passed by the House, and S. 3179 as introduced on November 4, 2021.

Notes:

- Excludes requested new budget authority of \$287.5 million as a program integrity cap adjustment.
- Excludes requested new budget authority of \$129.5 million as a program integrity cap adjustment.

Main Appropriations Accounts

Taxpayer Services (TS)

This account covers the cost of printing forms and publications, processing returns, filing and account services, and taxpayer assistance from the Taxpayer Advocate Service (TAS).

The Administration requests \$2,941 million in FY2022 for TS. Of this amount, \$11 million is set aside for the Tax Counseling for the Elderly (TCE) Program, \$13 million for low-income taxpayer clinic (LITC) grants, \$30 million (through the end of FY2023) for matching grants for the Community Volunteer Income Tax Assistance (VITA) Program, and \$211 million for the TAS.

H.R. 4502, as passed by the House, would match the Administration's appropriations request for TS in FY2022: \$2,941 million. Of this amount, the House measure calls for \$11.0 million to be set aside for the TCE Program, \$13.0 million for LITC grants, and \$30 million for matching

grants for the VITA Program (available through the end of FY2023). H.R. 4502 would allocate \$213 million for TAS.

As introduced by Senator Van Hollen on November 4, 2021, S. 3179 would also appropriate \$2,941 million for TS in FY2022. With one exception, the bill would allocate the same amounts for the TCE program, LITC grants, and the VITA program as H.R. 4502. TAS would receive a slightly larger budget: \$215 million.

Enforcement (ENF)

This account pays for expenses related to assessing and collecting taxes owed, providing legal support, and conducting criminal investigations.

The Administration requests \$5,463 million in appropriations for IRS enforcement activities in FY2022. Of this amount, \$21 million would be set aside to purchase new technology for the IRS's Criminal Investigation Division (CID).

The budget request also calls for \$287.5 million in new budget authority under the BCA to shrink the federal tax gap, which is the difference between taxes owed and taxes paid in full on time. According to the IRS's latest estimate, the FY2019 tax gap (after adjustment for late payments and revenue collected through IRS enforcement actions) was \$554 billion.

H.R. 4502 would provide the same amount of appropriations for ENF in FY2022 as the budget request. Included in this amount is \$21 million for CID technology upgrades. The bill also includes the requested \$287.5 million in new budget authority from a budget cap increase.

S. 3179 would provide the same level of ENF funding in FY2022 as H.R. 4502, with the same set-asides.

Operations Support (OS)

This account covers expenses associated with facility services (including rent), postage, telecommunications, security at IRS facilities, research, and the maintenance, security, and upgrade of agency information systems.

The Administration has requested \$4,448 million in appropriations for OS in FY2022. Of this amount, \$275 million would be available for obligation through the end of FY2023; \$10 million would be set aside (until spent) for the construction, renovation, and repair of IRS facilities; \$1 million would be designated through FY2023 for research; and \$10 million would go to developing a system to allow federal contractors and other entities to electronically certify that they do or do not have "seriously delinquent" federal tax debt.

The budget request includes \$129.5 million in new budget authority for OS investments linked to enforcement actions targeting the federal tax gap.

H.R. 4502 and S. 3179 match the Administration's budget request for OS in FY2022, including set-asides.

Business Systems Modernization (BSM)

This account pays for costs related to upgrading various IRS information technology systems.

Under the Administration's budget request, the BSM program would receive \$305 million in appropriations for FY2022. The requested funds would be available for acquiring and implementing new information technology (IT) systems through the end of FY2024.

The budget request would require the IRS to submit quarterly reports to the Senate and House appropriations committees and the U.S. Comptroller General on the status, cost, and results of and plans for major IT investments under the IRS's Integrated Modernization Business Plan.

H.R. 4502 and S. 3179 would also appropriate \$305 million for the BSM program in FY2022 for the same purposes and require the IRS to prepare the same quarterly reports.

Policy Issues

According to budget documents, the Biden Administration's FY2022 budget proposal for the IRS is intended to serve as the first step in a multiyear effort to expand the IRS's resources to reduce taxpayer noncompliance, improve taxpayer services, and further the modernization of the IRS's IT systems. This initiative would cost an estimated \$79.2 billion from FY2022 to FY2031 and collect an estimated \$316.2 billion in added gross revenue.

The Build Back Better Act (H.R. 5376), as passed by the House, contains a similar provision. There are differing estimates of the revenue it would raise. According to the Congressional Budget Office, spending an additional \$80 billion on IRS enforcement over 10 years would raise additional gross revenues of \$207 billion, or about 33% less than the Administration's estimate.

There is a debate over the need for such a sustained and substantial increase in the IRS budget. Some argue that the IRS should be funded at higher amounts than it has in recent years through a multiyear funding stream. The IRS Advisory Council, for instance, recommended in a 2020 report to the IRS Commissioner that the agency should be funded annually at a minimum amount of \$14.3 billion, which is \$2.4 billion more than the IRS's enacted FY2021 appropriations.

But not everyone agrees that the IRS budget (especially for enforcement activities) should be greatly expanded in coming years. Critics express concern that large increases in the IRS enforcement budget could lead to numerous violations of taxpayer rights to privacy and due process. They also argue that large, sustained increases in the IRS budget would enlarge the potential for waste, fraud, and abuse in the use of those funds. Some critics say that the proposed increases in the IRS's resources would likely raise much less revenue than the Administration has claimed.

Gary Guenther, Analyst in Public Finance

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