Congressional Research Service
Informing the legislative debate since 1914

IN FOCUS

May 6, 2022

Internal Revenue Service Appropriations, FY2023

Overview of the IRS Budget

The Internal Revenue Service (IRS) has two primary responsibilities: (1) collecting most of the revenue to fund federal government agencies and programs, and (2) enforcing taxpayer compliance with federal tax laws through taxpayer services and activities like audits. In FY2021, the agency processed 269 million tax returns and collected $4.1 trillion in gross revenue and $75 billion in enforcement revenue.

The IRS's operating budget is a blend of annual appropriations and miscellaneous resources. In FY2021, 90.5% ($11.92 billion) of its operating budget came from appropriations. The remaining 9.5% ($1.25 billion) consisted of (1) reimbursements from other government agencies for IRS-provided services, (2) offsetting collections, (3) user fees, and (4) carryovers of unobligated balances from previous fiscal years. Congress gives the IRS considerable leeway in how it uses nonappropriated funds.

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 has been the largest of the four in recent years, accounting for 43.2% of FY2022 enacted appropriations. OS was the second-largest account at 32.6%, followed by TS at 21.1% and BSM at 2.2%.

Overview of the IRS's FY2023 Budget Request

The Biden Administration is requesting $14.10 billion in IRS appropriations for FY2023, nearly 11.0% more than the FY2022 enacted amount. Requested funding for each of the four appropriations accounts is also larger. Relative to FY2022, TS funding is 21.8% greater, ENF funding 7.8% greater, OS funding 10.8% greater, and BSM funding 12.7% greater. Including an estimated $1.11 billion in miscellaneous resources, the IRS's FY2023 operating budget would total $15.21 billion.

In a departure from standard practice, the budget request adjusts the requested amounts for TS and ENF for "employee support costs." The adjustment would reduce requested OS FY2023 funding by $709 million and transfer that amount to TS ($298.9 million) and ENF ($410.7 million) to better reflect the actual employment cost for TS and ENF employees. This cost encompasses an employee's compensation, hiring and training costs, and the information technology and physical space to make an employee productive. The budget request calls for an "internal reimbursable agreement process" to implement the proposed adjustments in FY2023.

The budget request also designates $320.2 million for implementing the Taxpayer First Act (P.L. 116-250) provisions. In general, the provisions are intended to codify and strengthen taxpayer rights and to make the IRS more taxpayer-friendly by bolstering its cybersecurity, adopting more advanced technologies, and developing a comprehensive taxpayer service strategy. Funding for this purpose would come from three accounts: TS ($119.0 million), ENF ($54.3 million), and OS ($146.8 million). Another $10.2 million would go to a Mississippi Delta region hiring initiative, as part of a strategy to reach out to underserved communities.

Table 1. IRS's FY2022 and FY2023 Appropriations, Excluding Nonappropriated Funds
(billions of dollars)

Account	FY2022 Enacted	FY2023 Request	FY2023 Request[a] (Adjusted)
TS	$2.781	$3.386	$3.685
ENF	$5.438	$5.862	$6.272
OS	$4.101	$4.543	$3.834
BSM	$0.275	$0.310	$0.310
Total	**$12.595[b]**	**$14.100**	**$14.100**

Sources: IRS's FY2023 Budget Justification and Consolidated Appropriations Act, 2022, (P.L. 117-103).

Notes:

a. Transfers $709 million from OS to TS and ENF to account for support costs associated with employing someone in the latter two activities.

b. This figure does not include any of the funds the IRS received from Congress to implement pandemic-related tax benefits, which totaled $3.14 billion when they were enacted. The supplemental funds came from P.L. 116-136, P.L. 116-260, and P.L. 117-2.

Individual Appropriations Accounts

Taxpayer Services (TS)

This account funds prefiling assistance and education, filing and account services, taxpayer advocacy services, associated support costs, and other services authorized by 5 U.S.C. §3109.

The Administration requests $3.69 billion in adjusted appropriations for TS in FY2023. Of that amount, $100 million would remain available until the end of FY2024. The request also specifies that $11 million would be available for the Tax Counseling for the Elderly program; $26 million for low-income taxpayer clinic grants (which would be limited to $200,000 for a single clinic); $30 million for volunteer income tax assistance program matching grants (which would be available through the end of FY2024); and $235 million for the Taxpayer Advocate Service, $5.5 million of which would be reserved for cases involving identity theft and refund fraud.

Enforcement (ENF)

This account funds the following activities: determining and collecting taxes owed, legal and litigation support, criminal investigations and enforcement of tax laws, purchasing passenger cars for the agency, and other activities authorized by 5 U.S.C. §3109.

The Administration requests $6.27 billion in adjusted enforcement appropriations in FY2023. Of this amount, $250 million would be available through the end of FY2024; $60.3 million would go to the Interagency Crime and Drug Enforcement program; and $21 million would be set aside for the acquisition of "investigative technology" by the Criminal Investigation Division (in addition to funds for the division included in the OS account).

Operations Support (OS)

This account funds the operation of the IRS's infrastructure, including headquarters maintenance, agency information systems, and operating expenses for the Internal Revenue Service Oversight Board.

The Administration requests $3.83 billion in adjusted appropriations for OS in FY2023. Of this amount, $275 million would be available until the end of FY2024; $10 million would be available until spent for equipment purchases and the construction, renovation, and repair of facilities; and $1 million would be available for IRS research through FY2025.

Business Systems Modernization (BSM)

This account pays for expenses related to the BSM program, such as the acquisition of information technology systems and related managerial and contractual services.

The Administration requests $310 million for the BSM program in FY2023. The request would require the IRS to submit quarterly reports (under both the OS and BSM accounts) to both appropriations committees and the U.S. Comptroller General on the status, cost, and results of "major information technology investments" under the agency's Integrated Business Modernization Plan.

Administrative Provisions

The FY2023 budget request has 11 administrative provisions (also known as policy riders). For years, IRS appropriations acts have included such riders, which provide congressional guidance on activities the IRS should or should not undertake.

Nine of the 11 riders in the budget request were included in recent appropriations laws. They address such matters as protecting the confidentiality of tax information and the First Amendment rights of taxpayers.

The two other proposed riders would set new precedents. Section 101 would allow the IRS to transfer up to 6% of the funds in the ENF account to the TS account if additional funds are needed to reduce tax return and taxpayer correspondence backlogs in FY2023. This authority would supplement the IRS's current authority to transfer up to 4% of ENF appropriations to the OS or BSM accounts and up to 5% of total appropriations to any account, with the prior approval of the appropriations committees.

Section 111 would allow the IRS to repurpose up to $10 million in appropriations without the prior consent of those committees.

Policy Issues

The Administration's FY2023 IRS budget request raises the question of whether it would enable the IRS to efficiently and effectively carry out its responsibilities while respecting taxpayer rights and reducing tax evasion.

Declines in IRS audit rates for high-income taxpayers, corporations, and some small business owners since 2010 have fueled concerns that such a trend will worsen the federal tax gap, which is the difference between taxes owed and taxes paid on time. The current annual gross gap is thought to be around $600 billion. Recent cuts in IRS's enforcement budget have contributed to audit rate declines.

For many, a more pressing issue right now is IRS's taxpayer service. Exceptionally large backlogs of unprocessed (mostly paper) tax returns and taxpayer correspondence from 2020 and 2021, together with an exceptionally low level of IRS toll-free telephone service in FY2021, have caused months-long delays for millions of taxpayers expecting refunds from the 2020 tax year. As paper returns are processed manually and in the order they are received, many taxpayers filing paper returns for the 2021 tax year may experience similar delays in 2022.

According to some, these backlogs stem from inadequate TS resources, operating constraints caused by the COVID-19 pandemic, added pandemic-related work for the IRS (e.g., disbursement of economic impact payments), and the IRS's slow adoption of scanners for paper return processing.

Some policymakers say that the IRS will improve its performance only when it has enough resources. In their view, this requires reversing the declines in funding and staffing since FY2010 and ensuring the agency has the expertise and information systems to meet current and future demands on its capabilities.

Not every policymaker agrees that more funding is the solution to IRS's performance issues. Some argue that the IRS could greatly improve its taxpayer assistance if it were to make certain changes recommended by the National Taxpayer Advocate and others. These include expanding e-filing of tax forms, improving the capabilities of taxpayer online accounts, and allowing taxpayers to communicate with the IRS via secure email.

Gary Guenther, Analyst in Public Finance

IF12098

Disclaimer