Congressional Research Service
Informing the legislative debate since 1914

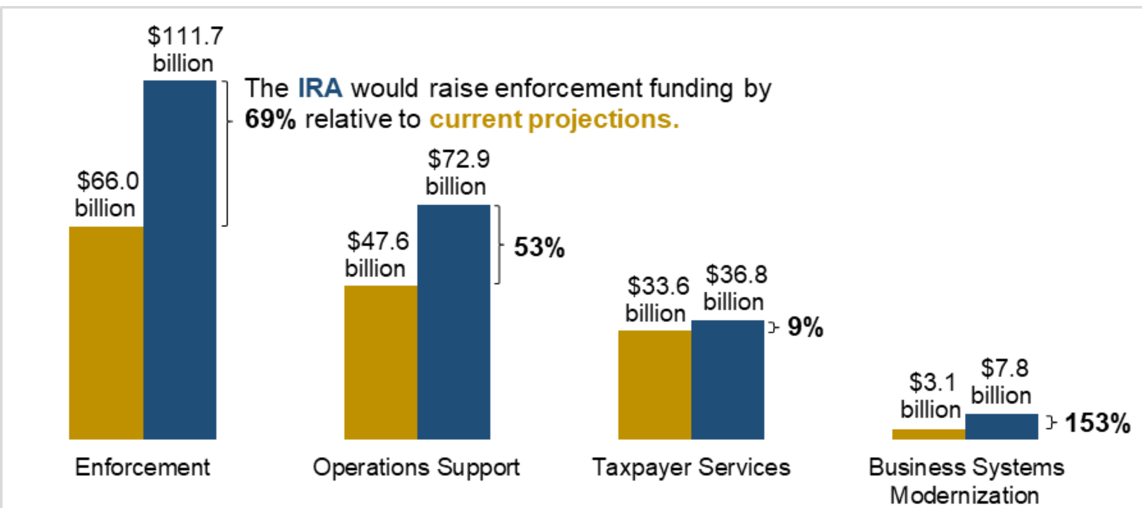
INSIGHT

IRS-Related Funding in the Inflation Reduction Act

August 3, 2022

Part 3 of Title I, Subtitle A of the draft Inflation Reduction Act (IRA, the Senate majority's draft amendment to H.R. 5376) would appropriate to the Internal Revenue Service (IRS) and related agencies a total of $79.6 billion, to remain available through the end of FY2031, to bolster taxpayer services and enforcement of the tax code, among other purposes. The bill intends for this new spending to supplement, not replace, the IRS's normal annual appropriations (see **Figure 1**).

Figure 1. The IRS's Budget Authority Through FY2031 Under the Inflation Reduction Act



Source: Congressional Budget Office; Part 3 of Title I, Subtitle A of the Inflation Reduction Act.

Note: Assumes no change in base appropriations.

Congressional Research Service
https://crsreports.congress.gov
IN11977

IRS Appropriations

Enforcement

The IRA would give the IRS $45.6 billion for tax enforcement activities such as hiring more enforcement agents, providing legal support, and investing in "investigative technology." The funds could also be used to monitor and enforce taxes on digital assets such as cryptocurrency. P.L. 117-58, the Infrastructure Investment and Jobs Act, required cryptocurrency brokers to report more information on their clients' trading activity to the IRS starting in 2023. (The bill would also appropriate $153 million to the United States Tax Court.)

Supporters argue these funds will reduce the "tax gap," or the average annual value of unpaid federal taxes. The IRS estimates the tax gap averaged $381 billion after accounting for enforcement between 2011 and 2013, the most recent years available. Some argue the 19% decline in the IRS's inflation-adjusted (CPI-RS) funding between 2010 and 2019 facilitated tax evasion. Funding rose in 2020 and 2021, in large part to help the IRS administer COVID-related benefits. (For more on the tax gap, see CRS In Focus IF11887, *Federal Tax Gap: Size, Contributing Factors, and the Debate Over Reducing It*.) The Congressional Budget Office estimated that similar enforcement spending in an earlier version of H.R. 5376, then referred to as the Build Back Better Act, would have generated $207 billion in revenues through FY2031, although such estimates are highly uncertain. That version of H.R. 5376 passed the House on November 19, 2021.

Operations Support

The IRS would get $25.3 billion for operations support under the IRA. This funding would cover routine costs such as rent, facilities, printing, postage, and security, as well as telecom and information technology. These funds could also go toward research and the IRS Oversight Board, which oversees and guides the IRS.

Taxpayer Services

The IRA would appropriate $3.2 billion for taxpayer services such as filing and account services, prefiling assistance, and education. The IRS has struggled to provide quality service during the COVID-19 pandemic. The number of unprocessed tax returns at the end of the filing season rose from 7.4 million in 2019 to 35.8 million in 2021 and 13.3 million in 2022. Phone service also suffered. Whereas IRS customer service representatives answered 59% of phone calls they received in 2019, they answered 19% and 18% in 2021 and 2022, respectively.

In addition, the IRS would receive $15 million under this bill to fund a task force that would study the cost and feasibility of creating a free direct e-file program. The agency previously committed not to create its own tax filing software as part of an alliance called the Free File Program. In exchange, private tax filing software companies agreed to provide free services to low- and moderate-income taxpayers. Roughly 4% of eligible taxpayers used the Free File Program's private providers to file their taxes in 2020. Intuit and H&R Block, who previously represented two-thirds of the program's usage, both left the agreement in the past three years. (For more on the Free File Program, see CRS In Focus IF11808, *The Internal Revenue Service's Free File Program (FFP): Current Status and Policy Issues*.)

Business System Modernization

The IRS would also receive $4.8 billion for its Business Systems Modernization project under this bill. In 2019, the IRS released a plan to upgrade the business systems it uses to administer taxpayer services, operations, and cybersecurity. These additional funds could be invested in customer service technology such as automated callback systems for phone lines, but not used to operate legacy systems.

Oversight

The draft IRA would direct the Commissioner of the IRS to report the agency's plans to spend these funds to Congress within six months of the bill's enactment. Starting one year later, the Commissioner is also directed to give quarterly updates on the IRS's use of these funds. The bill would cut the amounts it appropriates for enforcement, taxpayer services, operations support, and business modernization by $100,000 for each day late the Commissioner delivers these products.

The IRA would give other Treasury offices $557.5 million to oversee the administration of these new IRS funds. Of that amount, $403 million would go to the independent Treasury Inspector General for Tax Administration (TIGTA), $104.5 million would go to the Office of Tax Policy, and $50 million would go to the Treasury Departmental Offices.

The IRA clarifies that its appropriations and oversight provisions are not "intended to raise taxes on any taxpayer with a taxable income below $400,000." None of those provisions would raise rates or otherwise change any payer's tax obligation. The Biden Administration has previously claimed that under its tax compliance agenda, "audit rates will not rise relative to recent years for those with less than $400,000 in actual income."

Workforce

The IRA would authorize the IRS to use the funds appropriated for enforcement, operations support, taxpayer services, and Business System Modernization to hire employees using direct hire authority. Direct hire authority accelerates onboarding by letting the IRS bypass some steps in the screening process for federal employees.

Additionally, the IRA would permit the IRS to hire up to 200 highly skilled workers for critical position pay through FY2031, meaning the IRS could better compete with the private sector for these employees during that time. Lastly, the Secretary of the Treasury would be permitted to set the base pay and compensation for as many as 300 positions at the IRS, up to the equivalent levels set by statute for the Vice President of the United States.

Author Information

Brendan McDermott
Analyst in Public Finance

Disclaimer