Updated November 18, 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 $14.1 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 $1.1 billion in miscellaneous resources, the IRS's FY2023 operating budget would total $15.2 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 ($299 million) and ENF ($411 million) to better reflect the actual employment cost for TS and ENF functions. This cost encompasses employee compensation, hiring and training costs, and the information technology and physical space needed 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 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 million), ENF ($54 million), and OS ($147 million). Another $10 million would go to a Mississippi Delta region hiring initiative, as part of a strategy to reach out to underserved communities.

Action in the House and the Senate

In July, the House passed a bill (H.R. 8294) that would provide $13.6 billion in FY2023 appropriations for the IRS, which is $1 billion more than the enacted amount for FY2022 and $506 million less than the budget request.

Also in July, the Senate Appropriations Committee released the text of a bill for FY2023 appropriations for financial services and general government. The bill recommended $13.6 billion in IRS appropriations.

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

Account	FY2022 Enacted	FY2023 Request	FY2023 House[a]	FY2023 Senate[b]
TS	$2.781	$3.386	$3.411	$3.444
ENF	$5.438	$5.862	$6.120	$6.162
OS	$4.101	$4.543	$3.754	$3.678
BSM	$0.275	$0.310	$0.310	$0.310
Total	**$12.595**[c]	**$14.100**	**$13.595**	**$13.595**

Sources: IRS's FY2023 Budget Justification and Consolidated Appropriations Act, 2022 (P.L. 117-103), H.R. 8294, Senate Appropriations Committee bill for financial services and general government FY2023 appropriations.

Notes:

a. H.R. 8294, as passed by the House on July 20, 2022.

b. Senate Appropriations Committee's explanatory statement on its FY2023 financial services and general government appropriations bill.

c. This figure does not include any of the funds the IRS received from Congress to implement pandemic-related tax benefits, which totaled $3.1 billion when they were enacted. The supplemental funds came from P.L. 116-136, P.L. 116-260, and P.L. 117-2.

P.L. 117-169 (Inflation Reduction Act)

In August 2022, President Biden signed into law P.L. 117-169 (commonly called the Inflation Reduction Act or IRA), which included $78.9 billion in mandatory funding for the IRS that is available for obligation until September 30, 2031. The law specified how that amount should be distributed among the IRS's four appropriations accounts. These funds are available regardless of the amounts received by the IRS through annual appropriations. The figures in **Table 1** exclude IRA's mandatory funding. This is the first time that Congress has approved multiyear funding for the IRS's Appropriations Accounts.

Taxpayer Services (TS)

This account pays for prefiling assistance and education, filing and account services, taxpayer advocacy services, and associated support costs.

The Administration requests $3.4 billion in TS appropriations 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 (TCE) program; $26 million for low-income taxpayer clinic (LITC) grants, which would be limited to $200,000 for a single clinic; $30 million for volunteer income tax assistance (VITA) program matching grants, which would be available through the end of FY2024; and $235 million for the Taxpayer Advocate Service (TAS), $5.5 million of which would be reserved for cases involving identity theft and refund fraud.

H.R. 8294 would provide the IRS with $3.4 billion in TS appropriations in FY2023. Of this amount, $100 million would be available through the end of FY2024. In addition, $11 million would be set aside for the TCE program; $13 million for LITC grants; $35 million (until September 30, 2024) for VITA matching grants; and $235 million for TAS ($6 million of which would be used for cases involving identity theft and refund fraud.)

The Senate committee bill would provide $3.4 billion in TS appropriations in FY2023. Of this amount, $11 million would go to the TCE program, $26 million to LITC grants, $30 million to VITA matching grants (until September 30, 2025), and $235 million to TAS.

Enforcement (ENF)

This account covers costs associated with collecting taxes owed, legal and litigation support, criminal investigations, and enforcement of tax laws.

The Administration requests $5.9 billion in ENF 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" for use by the Criminal Investigation Division (CID).

H.R. 8294 would appropriate $6.1 billion for enforcement in FY2023. Of that amount, $250 million would be available until September 30, 2024, and $25 million would be used to acquire "investigatory technology" for the CID.

The Senate committee bill would provide $6.2 billion in funds for enforcement in FY2023. In its explanatory statement, the Senate Appropriations Committee "encourages" the IRS to "prioritize audits of high-income individuals and large corporations" and avoid increasing audits on households with incomes below $400,000.

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 $4.5 billion in OS appropriations in FY2023. Of this amount, $275 million would be available until the end of FY2024; $10 million would be available until it is spent for equipment purchases and the construction, renovation, and repair of facilities; and $1 million would be available for IRS research through FY2025.

H.R. 8294 would provide $3.7 billion in OS appropriations in FY2023, with the same allocation priorities as the budget request.

The Senate committee bill would also provide $3.7 billion in OS appropriations in FY2023.

Business Systems Modernization (BSM)

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

H.R. 8294 and the Senate committee bill would also set funding at $310 million for the BSM in FY2023, with the same reporting requirement.

Administrative Provisions

The FY2023 budget request has 11 administrative provisions (or policy riders). H.R. 8294 and the Senate committee bill contain the same riders, but they include one provision that is not in the budget request. It would grant the IRS "direct hire authority" to hire qualified persons for positions involving the processing of backlogged tax returns. This authority would allow the IRS to bypass certain preference, ranking, and rating requirements set by the Office of Personnel Management to fill those positions.

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