



October 1, 2019

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 and a variety of discretionary 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 is asking for \$11.472 billion in appropriations for the IRS in FY2020, or \$169 million more than the enacted amount for FY2019. This increase is 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 is proposing 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 to approve the adjustments before the associated funds could be spent. The added funds, along with proposed cap adjustments in future years, would be used to pay for “continuing investments in expanding and improving the effectiveness and efficiency of the IRS’s overall tax enforcement program.” According to IRS budget

documents, these investments would result in an estimated 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 does reflect the revenue effects of added enforcement initiatives on taxpayer noncompliance.

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

Account	FY2019 Enacted	FY2020 Request	FY2020	
			H.R. 3351 ^a	FY2020 S. 2524 ^b
Taxpayer Services	\$2,492	\$2,402	\$2,559	\$2,482
Enforcement	4,860	4,705 ^c	4,957 ^d	5,060
Operations Support	3,724	4,075 ^e	3,794 ^f	3,722
Business Systems Modernization	150	290	290	150
Administrative Provision	77	—	—	—
Total	\$11,303	\$11,472	\$12,000	\$11,414

Sources: IRS’s FY2020 Budget Justification and House Appropriations Committee report on H.R. 3351 (H.Rept. 116-122) and Senate Appropriations Committee report on S. 2524 (S.Rept. 116-111).

- a. As passed by the House.
- b. As reported by the Senate Appropriations Committee.
- c. Excludes Program Integrity Cap increase of \$199.9 million.
- d. Excludes Program Integrity Cap increase of \$200 million.
- e. Excludes Program Integrity Cap increase of \$162 million.
- f. Excludes Program Integrity Cap increase of \$200 million.

Individual Appropriations Accounts

Taxpayer Services

The Administration’s FY2020 budget request includes \$2.402 billion for TS. Of the requested amount, \$8.9 million would be set aside for the Tax Counseling for the Elderly Program (TCEP), \$12.0 million for low-income taxpayer clinic grants, \$15.0 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), with \$5 million designated for cases involving taxpayer identity theft.

Under H.R. 3351, as passed by the House, the IRS would receive \$2.559 billion in appropriations for TS in FY2020, or \$157 million more than the budget request. Of the recommended amount, \$12 million would go to the TCEP, \$13 million to low-income taxpayer clinic grants, \$25.0 million to VITA matching grants (available until September 30, 2021), and \$210 million for TAS, with \$1 million designated for cases involving identity theft and returns filed by deceased children.

S. 2524, as reported, would give the IRS \$2.482 billion in appropriations for TS in FY2020, or \$79 million more than the budget request. Of the recommended amount, \$9.9 million would be set aside for the TCEP, \$12 million for low-income taxpayer clinic grants, \$25 million for VITA matching grants (available until September 30, 2021), and \$207 million for TAS.

Enforcement

Under the Administration's budget request, the IRS would receive \$4.705 billion in appropriations for enforcement activities in FY2020, or \$155 million less than the enacted amount for FY2019. Of that amount, \$60.3 million would be set aside for the Interagency Crime and Drug Enforcement program. Another \$200 million for reducing the federal tax gap would come from a requested program integrity cap increase under the BBEDCA in FY2020.

H.R. 3351 would give the IRS \$4.957 billion in appropriations for enforcement in FY2020, or \$252 million more than the budget request. Of that amount, \$60.3 million would go to the Interagency Crime and Drug Enforcement program. It also includes another \$200 million for reducing the federal tax gap, as a program integrity cap increase. The gap refers to the difference between the total income, employment, excise, gift, and estate taxes owed in a year and the total amount of those taxes paid in full and on time. According to the latest estimate from the IRS, the gross federal tax gap averaged \$441 billion per year from 2011 to 2013; late payments and IRS enforcement actions lowered the gap to an annual average of \$381 billion.

S. 2524 would provide the IRS with \$5.060 billion in appropriations for enforcement activities in FY2020, or \$155 million more than the budget request (including the proposed program integrity cap increase). Of the recommended funding, \$635 million would be designated for the IRS's Criminal Investigation Division. The bill does not call for a program integrity cap increase.

Operations Support

The Administration is asking 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 be available for use through the end of FY2021. The budget request also calls for a program integrity cap increase of \$162 million to address the federal tax gap through the OS account

H.R. 3351 would provide \$3.794 billion in appropriations for OS in FY2020, or \$281 million less than the budget request. It would also give the IRS another \$200 million in

funding via OS to address the federal tax gap through a program integrity cap increase.

S. 2524 recommends \$3.722 billion in appropriations for OS in FY2020, or \$515 million less than the budget request (including the proposed program integrity cap increase).

Business Systems Modernization

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

H.R. 3351 also recommends that the IRS receive \$290 million in appropriations for BSM in FY2020.

S. 2524 would limit appropriations for BSM in FY2020 to the same amount that was enacted in FY2019: \$150 million.

Administrative Provisions

The budget request and the House and Senate FY2020 appropriations bills for the IRS 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 taxpayer information; improving toll-free phone service for taxpayers; awarding employee bonuses; and targeting individuals because of their ideological beliefs.

The budget request includes three new provisions. Two of them (§§108 and 109) would restore "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 pay rate in excess of 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.

Section 111 of H.R. 3351 would restore critical pay authority to the IRS through the end of FY2023.

S. 2524 contains no new provisions affecting the IRS, but Section 111 would prohibit the IRS from using appropriated funds to create prefilled (or prepopulated) tax returns for individuals with relatively uncomplicated tax situations. H.R. 3351 and the budget request do not contain a similar provision. A key issue behind the ban is the ability of the IRS to provide free direct online tax filing that does not conflict with the agency's ongoing Free File program. There is disagreement among Members of Congress over whether or not to permanently extend the program and its prohibition on the IRS offering prepopulated returns and free direct online filing to all taxpayers.

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