

## #2 PROVIDE THE IRS WITH SUFFICIENT FUNDING TO MEET TAXPAYER NEEDS AND IMPROVE FEDERAL TAX COMPLIANCE

### Present Law

Congress controls the IRS's priorities by dividing its annual appropriation into four accounts: Taxpayer Services, Enforcement, Operations Support, and Business Systems Modernization. With limited exception, the IRS may not reallocate its appropriated funding among its accounts.

Under the Congressional Budget and Impoundment Control Act of 1984, as amended, the federal appropriations process is generally a zero-sum game: Once Congress establishes spending caps for the upcoming fiscal year, a dollar allocated to one agency or program leaves one less dollar available for allocation to another agency or program.

As an exception to the spending caps, Congress in some years has authorized “program integrity cap adjustments,” which allow it to appropriate funding for IRS enforcement initiatives in excess of the caps on the basis that the initiatives are projected to generate a positive return on investment (ROI).<sup>9</sup>

### Reasons for Change

The IRS mission statement says the agency's mission is to “[p]rovide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all.”<sup>10</sup> Since fiscal year (FY) 2010, the IRS budget has been reduced by more than 20 percent after adjusting for inflation.<sup>11</sup> Largely as a result of these budget reductions, the IRS is neither providing top quality service nor enforcing the law with fairness to all.<sup>12</sup> In addition, its information technology (IT) systems are in desperate need of upgrades.

#### *The IRS Is Not Providing Top Quality Service*

The IRS received nearly 100 million telephone calls in FY 2019. Its employees answered only 29 percent of these calls, with hold times averaging 16 minutes. The President's Management Agenda emphasizes the importance of high-quality customer service as measured by the American Customer Satisfaction Index (ACSI) and the Forrester U.S. Federal Customer Experience Index™.<sup>13</sup> By these measures, the IRS performs poorly. The ACSI report for 2018 ranked the Treasury Department tied for 10th out of 12 federal departments and says that “most [IRS] programs score ... well below both the economy-wide national ACSI average and the federal government average.”<sup>14</sup> The 2019 Forrester report ranked the IRS 13th out of 15 federal agencies and characterized the IRS's score as “very poor.”<sup>15</sup>

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- 9 See, e.g., Consolidated Appropriations Act, 2010, Pub. L. No. 111-117, 123 Stat. 3034, 3165 (2009) (IRS Administrative Provision § 105 provided a cap adjustment of \$890 million for “enhanced tax law enforcement”); H.R. Con. Res. 218, 103rd Cong. § 25 (1994). For a detailed discussion of the mechanics of cap adjustments, see H.R. REP. No. 103-490, at 58 (1994).
- 10 See IRS, The Agency, its Mission and Statutory Authority (Aug. 9, 2019), <https://www.irs.gov/about-irs/the-agency-its-mission-and-statutory-authority> (last visited Dec. 12, 2019).
- 11 IRS response to TAS information request (Oct. 2, 2019).
- 12 See National Taxpayer Advocate 2019 Annual Report to Congress (Most Serious Problem: *IRS Funding: The IRS Does Not Have Sufficient Resources to Provide Quality Service*).
- 13 Office of Management and Budget, *President's Management Agenda 7*, 28 (2018), [https://www.performance.gov/PMA/Presidents\\_Management\\_Agenda.pdf](https://www.performance.gov/PMA/Presidents_Management_Agenda.pdf).
- 14 American Customer Satisfaction Index, *ACSI Federal Government Report 2018*, at 3-4 (2019).
- 15 Forrester Research, Inc., *The US Federal Customer Experience Index, 2019*, at 15-16 (June 11, 2019).

### *The IRS Is Not Enforcing the Law With Fairness to All*

The IRS recently estimated it was unable to collect an annual average of about \$381 billion in unpaid tax attributable to legal-source income for tax years 2011-2013.<sup>16</sup> With approximately 122 million U.S. households in 2013, that suggests each U.S. household is effectively paying an average annual “surtax” of more than \$3,000 to subsidize noncompliance by others.<sup>17</sup> To be “fair to all,” the IRS should be funded to reduce noncompliance. But equally important, it must be staffed to answer calls from taxpayers against whom it takes collection actions, such as wage garnishments, bank levies, or the filing of notices of federal tax lien. Levies, in particular, often create economic hardships for taxpayers, and the law requires the IRS to release levies in those cases.<sup>18</sup> But taxpayers often cannot reach the IRS to make it aware of their hardships. In FY 2019, the IRS received 15 million calls on its consolidated automated collection system telephone lines. IRS employees were able to answer only about 31 percent, and taxpayers who got through waited on hold an average of about 38 minutes.

### *Upgraded Information Technology Systems Would Improve Service and Enforcement*

The two IRS systems containing the official records of individual and business taxpayer accounts are the oldest major technology systems in the federal government. The IRS also has about 60 case management systems that generally are not interconnected; each function’s employees must transcribe or import information from other electronic systems and mail or fax it to other functions. Obsolete IT systems limit the functionality of online taxpayer accounts, prevent taxpayers from obtaining full details about the status of their cases, and prevent the IRS from selecting the best cases for compliance actions. To modernize its IT systems, the IRS requires gradual, consistent funding increases for its Business Systems Modernization account without significant fluctuations from year to year, which could disrupt IT contracts and increase the long-term cost of the upgrades.

### *The IRS Is an Extraordinary Investment*

In FY 2018, the IRS collected nearly \$3.5 trillion on a budget of about \$11.43 billion, producing a remarkable ROI of more than 300:1.<sup>19</sup> It is economically irrational to underfund the IRS. If a company’s accounts receivable department could generate an ROI of 300:1 and the chief executive officer (CEO) failed to provide enough funding for it to do so, the CEO would be fired. Yet in general, the federal budget rules exclusively take into account outlays and ignore the revenue those outlays generate. The program integrity cap adjustment mechanism gives Congress the ability to provide some funding above the spending caps, but because it historically has been used solely to fund enforcement initiatives, it can lead to imbalances in the IRS’s operations.

### *Balanced Funding Is Needed*

Most initiatives require resources from more than one of the IRS’s budget accounts. When the IRS hires more collection personnel through the Enforcement account, for example, it requires funding for additional office space, equipment, and the like from the Operations Support account. When the IRS takes additional enforcement actions against taxpayers and the taxpayers call or visit the IRS, there needs to be sufficient

16 IRS Pub. 1415, Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011–2013, at 8 (Sept. 2019).

17 United States Census Bureau, *Historical Households Tables: Table HH-1: Households by Type: 1940 to Present*, <https://www.census.gov/data/tables/time-series/demo/families/households.html> (last visited Dec. 17, 2019). For purposes of computing this “surtax,” we make the simplifying assumption that the government is seeking to collect a fixed amount of revenue, such that compliant taxpayers pay more to subsidize noncompliance by others.

18 IRC § 6343(a)(1)(D).

19 IRS, 2018 Data Book, Table 1: Collections and Refunds, by Type of Tax (May 2019); Department of the Treasury, *FY 2020 Budget-in-Brief* 69 (2019), <https://home.treasury.gov/system/files/266/FY2020BIB.pdf>.

funding in the Taxpayer Services account to answer the calls and handle the visits. If Congress provides a boost to the Enforcement account without corresponding increases to the Operations Support and Taxpayer Services accounts, the IRS cannot use the funding in a way that is reasonable and fair to taxpayers. Therefore, we believe Congress should not rely on program integrity cap adjustments to fund the IRS unless it takes a holistic view of compliance initiatives and funds the downstream costs as well.

### Recommendations

- Provide sufficient funding for the IRS to increase the “Level of Service” on both its accounts management and compliance telephone lines to 80 percent, with average hold times not to exceed five minutes, and provide sufficient funding for the Business Systems Modernization account to enable the IRS to replace its 1960’s technology systems and create a robust integrated case management system.
- Ensure the IRS receives balanced funding by taking into account the interactive effects of changing the funding level for one IRS account on other IRS accounts, including the downstream increase in telephone calls and TAS cases that are likely to result from increased enforcement funding.
- Revise existing budget rules to fund the IRS in a manner that more closely follows the principles private sector businesses apply in setting funding levels for their accounts receivable departments — while keeping in mind the public sector goal is slightly different and should focus on maximizing tax compliance, especially voluntary compliance, while protecting taxpayer rights and minimizing taxpayer burden.