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Internal Revenue Service Appropriations, FY2021

Overview of Budget Request

The Internal Revenue Service (IRS) has two primary responsibilities: (1) to collect most of the revenue to fund federal government agencies and programs, and (2) to enforce taxpayer compliance with federal tax laws. According to the IRS Data Book, in FY2019, the agency processed over 253 million tax returns and 3.5 billion information returns, collected over \$3.5 trillion in gross revenue, and issued \$452 billion in refunds.

Appropriations provide most of IRS's operating budget. In FY2019, 93% (\$11,302 million) of its operating budget came from appropriations. The remaining 7% (\$817 million) consisted of (1) reimbursements from other government agencies for services rendered by the IRS, (2) offsetting collections, (3) user fees, and (4) carryovers of unobligated balances from previous years. Current law gives the IRS unrestricted control over how nonappropriated funds are used.

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 accounted for 43.5% of the \$11,511 million in enacted appropriations for FY2020, followed by OS (33%), TS (22%), and BSM (1%).

The Trump Administration requested \$12,039 million in IRS appropriations for FY2021, or \$528 million (4.6%) more than the enacted amount for FY2020. Relative to FY2020, funding for OS would have risen by \$196 million (7.8%), for BSM by \$120 million (66.7%), for ENF by \$61 million (1.2%), and for TS by \$51 million (2%).

The Administration also proposed to supplement funding for reducing the federal tax gap by asking Congress to exempt \$400 million of the proposed budget (\$280 million for ENF and \$120 million for OS) from the FY2021 caps on nondefense discretionary spending under the Budget Control Act of 2011 (BCA; P.L. 112-25, as amended).

The requested exemption is known as a program integrity cap adjustment. It allows Congress and the Administration to increase congressional allocations of annual appropriations for particular purposes. These purposes include activities to maintain "program integrity," such as boosting a program's effectiveness by enforcing compliance with its regulations.

According to budget documents, the proposed \$400 million cap adjustment in FY2021, together with proposed annual cap adjustments through FY2030, would have resulted in a net revenue gain of \$64 billion in that period. This estimate

did not consider the potential revenue gain from the deterrent effect from increased enforcement.

The FY2021 budget proposal included \$106.4 million to implement changes in IRS operations mandated by the Taxpayer First Act (P.L. 116-25). Among the changes are creating an internet platform for filing Form 1099s, moving to 100% e-filing by tax-exempt entities, and developing uniform standards for electronic signatures.

The 116th Congress approved the Consolidated Appropriations Act, 2021 (H.R. 133, P.L. 116-260), which provides \$11,919 million in appropriations for the IRS. This amount is 3.5% larger than the enacted amount for FY2020 and 1% less than the budget request.

Table 1. IRS's FY2020 and FY2021 Appropriations, Excluding Nonappropriated Funds

(millions of dollars)

Account	FY2020 Enacted	FY2021 Request	FY2021 Enacted
Taxpayer Services	\$2,512	\$2,563	\$2,556
Enforcement	5,010	5,071	5,213
Operations Support	3,809	4,105	3,928
Business Systems Modernization	180	300	223
Total	\$11,511	\$12,039^a	\$11,919

Sources: IRS's FY2021 Budget Justification and Consolidated Appropriations Act, 2021 (P.L. 116-260).

a. Excludes \$400 million in Program Integrity Initiatives under the ENF and OS accounts.

Specific Appropriations Accounts

Taxpayer Services (TS)

This account covers the cost of printing forms and publications, processing returns, filing and account services, and taxpayer assistance from the Taxpayer Advocate Service (TAS).

The Administration asked for \$2,563 million in FY2021 for TS, or \$51 million more than the enacted amount for FY2020. Of this amount, \$11 million was set aside for the Tax Counseling for the Elderly Program, \$12 million for low-income taxpayer clinic grants, \$25 million (available through the end of FY2022) for matching grants in the

Community Volunteer Income Tax Assistance Program, and \$209 million for the TAS.

The budget request also called for a reduction in full-time staffing within TS of 1,081 employees, which represented 91.4% of the net reduction in full-time IRS staffing (1,183 employees) sought by the budget request.

Under P.L. 116-260, the IRS is receiving \$2,556 million for TS in FY2021, or \$44 million more than the enacted amount for FY2020. Of this amount, \$11 million is set aside for the Tax Counseling for the Elderly Program, \$13 million for low-income taxpayer clinic grants, \$30 million for matching grants for the Community Volunteer Taxpayer Assistance Program, and \$211 million for TAS.

The joint explanatory statement accompanying the act directs the IRS to do more to ensure that taxpayers in rural areas, Alaska, and Hawaii have adequate access to taxpayer assistance centers.

Enforcement (ENF)

This account pays for expenses related to assessing and collecting taxes owed, providing legal support, and conducting criminal investigations.

The Administration requested \$5,071 million in appropriations (without a \$280 million cap adjustment) for IRS enforcement activities in FY2021, or \$61 million more than the enacted amount for FY2020.

The funding request included \$280 million in new budget authority under the BCA to address the federal tax gap. According to the IRS's latest estimate, the annual net tax gap averaged \$381 billion from FY2011 to FY2013.

P.L. 116-260 provides \$5,213 million for enforcement activities in FY2021, or \$203 million more than the enacted amount for FY2020. Of that amount, \$5 million is set aside for the acquisition of new "investigative technology" for the IRS's Criminal Investigation Division.

The joint explanatory statement accompanying the act urges the IRS to hire more special agents for its Criminal Investigations unit to expand the unit's investigations into money laundering, violations of the Bank Secrecy Act, and criminal violations of the tax code.

Operations Support (OS)

This account covers expenses associated with facility services (including rent), postage, telecommunications, security at IRS facilities, research, and the maintenance, security, and upgrade of agency information systems.

The Administration requested \$4,105 million in appropriations (without a \$120 million cap adjustment) for OS in FY2021, or \$296 million more than the enacted amount for FY2020. Of the requested amount, \$250 million would have been available for obligation through the end of FY2022; \$10 million would have been available until spent for the construction and repair of facilities; and \$1 million would have been available through FY2023 for research.

The budget request included \$120 million in new budget authority for investments linked to enforcement actions intended to lower the federal tax gap.

Under P.L. 116-260, the IRS is receiving \$3,928 million for OS in FY2021, or \$119 million more than the enacted amount for FY2020. Of that amount, \$10 million is reserved for developing an automated system for monitoring the tax compliance of federal contractors.

Business Systems Modernization (BSM)

This account pays for costs related to upgrading various IRS information technology systems.

Under the IRS's budget request, the BSM program was to receive \$300 million for FY2021, or \$120 million more than the enacted amount for FY2020. The requested funds would have been available for acquiring new information technology systems through the end of FY2023.

P.L. 116-260 provides \$223 million for BSM in FY2021, or \$43 million more than the enacted amount for FY2020. The act directs the IRS to target the funds at the development of the Customer Account Data Engine 2 (CADE2), the Enterprise Case Management System (ECMS), web applications, cybersecurity, data protection, and online taxpayer assistance.

Administrative Provisions

The FY2021 IRS budget request included 12 administrative provisions (or policy riders) intended to create new operational priorities or reaffirm existing ones. Ten of the 12 provisions reiterated priorities from previous appropriations acts. P.L. 116-260 included the 10 provisions from previous years.

Policy Issues

IRS's enacted FY2021 appropriations raise the question of whether it provides the agency with the resources it needs to achieve a variety of critical goals. These include improving taxpayer compliance; assisting taxpayers with their questions and concerns in a timely manner; and accelerating the upgrading of IRS's IT systems.

Whether the IRS has sufficient resources for these purposes is a matter of debate. Some argue that the IRS should be funded at higher amounts through a multiyear funding stream, with most of the added funds used for enforcement and IT upgrades. The IRS Advisory Council, for instance, recommended in its 2020 report to the IRS Commissioner that the agency should be funded annually at not less than \$14.3 billion. Proponents of increased funding for enforcement say it would bolster taxpayer confidence in the fairness of the federal income tax and reduce the tax gap.

Not everyone agrees with this position. Some contend that the IRS should be kept on a tight budget to prevent it from continuing to undertake projects that have historically been marked by repeated cost overruns and delays in delivering final products and services, such as the BSM program.

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