



Updated August 26, 2020

IRS 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 the IRS’s operating budget. In FY2019, according to the agency’s FY2021 budget request, 93% (\$11,302 million) of its operating budget came from appropriations. The remaining 7% (\$817 million) was from several other sources, including (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. The IRS has unrestricted authority 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 (33.0%), TS (22%), and BSM (1%).

The Trump Administration has requested \$12,039 million in IRS appropriations for FY2021, or \$528 million (4.6%) more than the enacted amount for FY2020. Relative to enacted amounts for FY2020, funding for OS would rise by \$196 million (7.8%), for BSM by \$120 million (66.7%), for ENF by \$61 million (1.2%), and for taxpayer services by \$51 million (2.0%).

The Administration is also proposing to make more funding available for reducing the federal tax gap by asking Congress to exempt a total of \$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 permits Congress and the Administration to increase congressional allocations of annual appropriations for particular purposes. These purposes include activities to maintain “program integrity,” such as efforts to improve 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 result in a net

revenue gain of \$64 billion in that period. This estimate does not take into account the revenue gain from the deterrent effect on taxpayers from increased enforcement.

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

Table 1. IRS’s FY2020 and FY2021 Appropriations, Excluding Nonappropriated Funds
(millions of dollars)

Account	FY2020 Enacted	FY2021 Request	FY2021 House-passed
Taxpayer Services (TS)	\$2,512	\$2,563	\$2,603
Enforcement (ENF)	5,010	5,071	5,206
Operations Support (OS)	3,809	4,105	4,058
Business Systems Modernization (BSM)	180	300	250
Total	\$11,511	\$12,039^a	\$12,117

Sources: IRS’s FY2021 Budget Justification, H.R. 7668, and H.R. 7617.

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 is asking for \$2,563 million in FY2021 for TS, or \$51 million more than the enacted amount for FY2020. Of this amount, \$11 million would be set aside for the Tax Counseling for the Elderly Program, \$12 million for low-income taxpayer clinic grants, and \$25 million (available through the end of FY2022) for matching grants in the Community Volunteer Income Tax Assistance

program. In addition, \$209 million would go to the TAS. The budget request calls for a reduction in full-time staffing within TS of 1,081 employees, which represents 91.4% of the net reduction in overall full-time staffing (1,183 employees) at the IRS called for by the budget request.

H.R. 7617, as passed by the House, would provide \$2,603 million in FY2021 appropriations for taxpayer services, or \$40 million more than the budget request. In its report (H.Rept. 116-456) on the initial bill containing IRS appropriations (H.R. 7668), the House Appropriations Committee urges the IRS to do more to promote the Free File Program, among other things.

Enforcement (ENF)

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

The Administration is requesting \$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. Of that amount, \$15 million would be used to upgrade the “investigative technology” used by IRS’s Criminal Investigative Division (CID).

The funding request for enforcement also includes \$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. The net gap refers to the amount of unpaid and overdue taxes after allowing for late payments and the results of IRS’s enforcement actions.

H.R. 7617 would provide the IRS with \$5,206 million in FY2021 appropriations for enforcement activities. This is \$145 million less than the budget request (including \$280 million for a program integrity cap adjustment). The bill does not endorse the requested cap adjustment. Without the adjustment, appropriations for enforcement would be \$135 million more than the budget request.

Among other things, the committee report on H.R. 7668 directs the IRS to provide quarterly reports to the House and Senate Appropriations Committees on the performance of the three private debt collectors participating in the private tax debt collection initiative.

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 has 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 be available for obligation through the end of FY2022; \$10 million would be available until spent for the construction and repair of facilities; and \$1 million would be available through FY2023 for research.

The OS budget request also includes \$120 million in new budget authority for activities linked to enforcement actions aimed at reducing the federal tax gap.

H.R. 7617 would provide \$4,058 in appropriations for OS in FY2021. This amount would be \$167 million less than the budget request with the \$120 million program integrity cap adjustment, and \$47 million less without the adjustment. The bill does not endorse the cap adjustment.

Business Systems Modernization (BSM)

This account covers costs related to upgrading key IRS information technology systems.

Under the IRS’s budget request, the BSM program would receive \$300 million in appropriations for FY2021, or \$120 million more than the enacted amount for FY2020. The requested funds would be available for obligation through the end of FY2023. They would cover costs associated with the acquisition of information technology systems, including contractor expenses.

H.R. 7617 would provide \$250 million in appropriations for the BSM program in FY2021, or \$50 million less than the budget request. The report on H.R. 7668 directs the IRS to continue providing quarterly reports on the cost and status of BSM-funded projects, such as CADE 2.

Administrative Provisions

The FY2021 IRS budget request contains a number of administrative provisions (or policy riders) that establish or reiterate operational priorities for IRS management. These provisions generally change little from year to year.

But the FY2021 request contains two new provisions. Section 111 of the request would allow the IRS to transfer its unobligated, expired appropriations to OS to pay for information technology (IT) investments and facility improvements. Certain restrictions would apply.

Section 112 would authorize the IRS to repurpose up to \$10 million in unused appropriations at the end of a fiscal year without prior congressional approval. The repurposing would enable the IRS to allocate funds to meet its priorities.

H.R. 7617 contains all of the administrative provisions included in the budget request except Section 112. It has one provision that is consistent with Section 111 with a notable difference: Section 111 of Division D of the bill would create a “Nonrecurring Expenses Fund” for the IRS not tied to the OS account. Unused appropriated funds could be transferred into the fund and used for facility and IT expenses under certain conditions.

Two floor amendments approved by voice vote during House consideration of H.R. 7617 would have the impact of administrative provisions. One provision would direct the IRS to reduce the taxpayer correspondence backlog caused by COVID-19. The other provision would add \$10 million to OS appropriations to improve IRS’s ability to deliver “outstanding” economic impact payments and respond to congressional inquiries about casework.

Gary Guenther, Analyst in Public Finance

Disclaimer

This document was prepared by the Congressional Research Service (CRS). CRS serves as nonpartisan shared staff to congressional committees and Members of Congress. It operates solely at the behest of and under the direction of Congress. Information in a CRS Report should not be relied upon for purposes other than public understanding of information that has been provided by CRS to Members of Congress in connection with CRS's institutional role. CRS Reports, as a work of the United States Government, are not subject to copyright protection in the United States. Any CRS Report may be reproduced and distributed in its entirety without permission from CRS. However, as a CRS Report may include copyrighted images or material from a third party, you may need to obtain the permission of the copyright holder if you wish to copy or otherwise use copyrighted material.