

## Internal Revenue Service

As seven former IRS commissioners from both Republican and Democratic administrations have written: “Over the last fifty years, none of us has ever witnessed anything like what has happened to the IRS appropriations over the last five years and the impact these appropriations reductions are having on our tax system.”<sup>45</sup> While the IRS budget grew modestly between 2001 and 2010, it has been targeted for particularly sharp funding cuts since then — its 2017 budget of \$11.2 billion is 18 percent below its 2010 level, after adjusting for inflation. These cuts have weakened the agency’s ability to perform its core functions of collecting taxes and enforcing the nation’s tax laws.

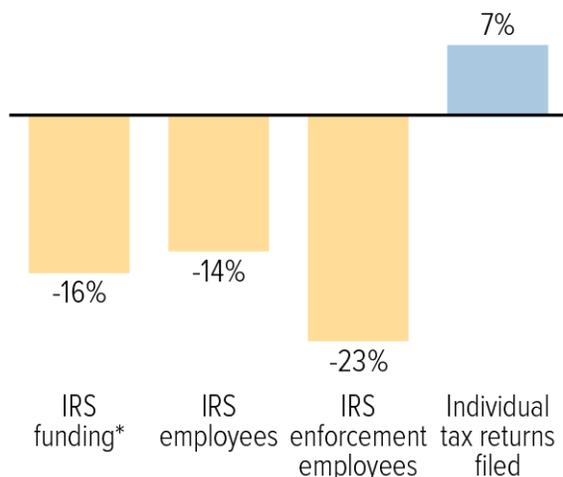
As most IRS funding goes to staffing, the cuts have forced the IRS to dramatically reduce its workforce. Between 2010 and 2016, it lost 14 percent of its workforce, or roughly 13,000 employees. IRS funding and staffing for enforcement have been cut especially sharply — over that same period, enforcement lost 23 percent of its workforce, or roughly 11,000 employees.<sup>46</sup> (See Figure 11.)

These cuts have occurred even as the agency’s responsibilities have grown. In 2016, the IRS processed 10 million more individual tax returns than it did in 2010.<sup>47</sup> It has also dedicated more resources to respond to growing cybersecurity threats from hackers and identity thieves, as well as to implement major new tax legislation.

FIGURE 11

### IRS Funding Has Been Cut While Workload Has Grown

Percent change from 2010 to 2016 (funding adjusted for inflation)



\*Uses 2016 funding level for comparability with other measures. Percent change since 2010 is -18% using 2017. Source: CBPP calculations based on IRS, Office of Management and Budget, and appropriations legislation

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<sup>45</sup> Former Internal Revenue Service (IRS) Commissioners Mortimer M. Caplan, Sheldon S. Cohen, Lawrence B. Gibbs, Fred T. Goldberg, Jr., Shirley D. Peterson, Margaret M. Richardson, and Charles O. Rossotti, “Letter to the Honorable Thad Cochran, the Honorable Barbara A. Mikulski, the Honorable Harold Rogers, and the Honorable Nita M. Lowey: IRS Appropriations for Fiscal Year 2016,” November 9, 2015, <http://taxprof.typepad.com/files/former-irs-commissioners-letter-on-agency-budget.pdf>.

<sup>46</sup> Government Accountability Office, “Internal Revenue Service: Observations on IRS’s Operations, Planning, and Resources,” February 27, 2015, p. 35, <http://www.gao.gov/assets/670/668769.pdf>; “Internal Revenue Service: Preliminary Observations on the Fiscal Year 2017 Budget Request and 2016 Filing Season Performance,” March 8, 2016, p. 9, <http://www.gao.gov/assets/680/675668.pdf>.

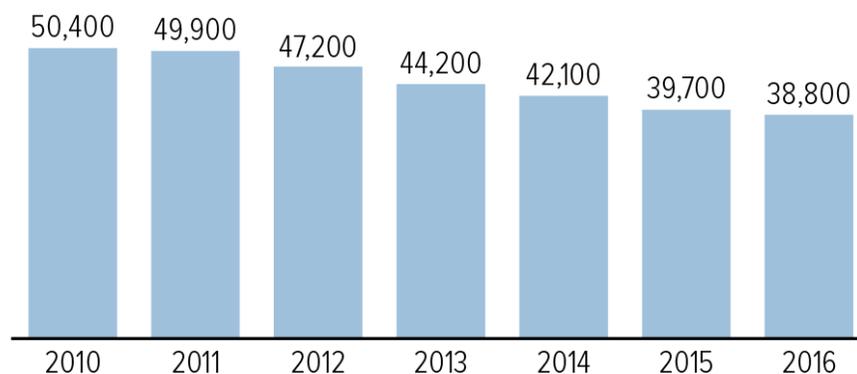
<sup>47</sup> IRS, “2017 and Prior Year Filing Season Statistics,” <https://www.irs.gov/uac/2017-and-prior-year-filing-season-statistics>.

Cuts to IRS funding and staffing have affected taxpayer services, cybersecurity, and enforcement (see Figure 12):

FIGURE 12

## IRS Has Cut Enforcement Staff by 23 Percent Since 2010

IRS full-time-equivalent enforcement staff funded through appropriations, by fiscal year



Source: Government Accountability Office

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- Taxpayer services are at subpar levels. In 2016, the agency answered only 53 percent of taxpayers' calls and callers waited almost 18 minutes on average for an answer.<sup>48</sup>
- The IRS has had to delay much-needed upgrades to its information technology systems, compromising the security of taxpayer data and weakening its ability to identify and assist victims of identity theft. About 60 percent of its hardware and 28 percent of its software is out of date — and some of its software is at least 50 years old.<sup>49</sup>
- Deep enforcement cuts have reduced the IRS's ability to go after tax cheats. The IRS audited just 1 of every 140 individual returns in 2016, down from 1 of 90 returns in 2010.<sup>50</sup> IRS Commissioner John Koskinen has stated, "We estimate we're leaving on the table \$10 billion a year in uncollected revenue [from] the audits we can't do because we don't have enough

<sup>48</sup> Government Accountability Office, "2015 Tax Filing Season: Deteriorating Taxpayer Service Underscores Need for a Comprehensive Strategy and Process Efficiencies," December 16, 2015, <https://www.gao.gov/products/GAO-16-151>; National Taxpayer Advocate, "Annual Report to Congress 2016: Executive Summary," Internal Revenue Service, 2017, <https://taxpayeradvocate.irs.gov/2016AnnualReport>.

<sup>49</sup> John Koskinen, "Prepared Remarks of John Koskinen Before the National Press Club in Washington, DC, April 5, 2017," <https://www.irs.gov/uac/newsroom/prepared-remarks-of-john-a-koskinen-before-the-national-press-club-washington-dc-april-5-2017>; "Koskinen Discusses Major Challenges Facing IRS," *Tax Notes*, February 24, 2015.

<sup>50</sup> IRS, "2016 Data Book," <https://www.irs.gov/pub/irs-soi/16databk.pdf>; "2010 Data Book," <https://www.irs.gov/pub/irs-soi/10databk.pdf>.

people.”<sup>51</sup> Underfunding enforcement is penny-wise and pound-foolish. Treasury estimates that every additional \$1 invested in enforcement can produce \$6 in additional revenue, and the additional, indirect savings from deterring tax evasion are more than three times that.<sup>52</sup>

- The IRS’s Criminal Investigations division, which investigates activities such as identity theft, tax evasion, money laundering, and terrorist financing, initiated 28 percent fewer investigations in 2016 than it did in 2010.<sup>53</sup>

As its responsibilities continue to grow, IRS funding should grow accordingly. Underfunding the IRS reduces its effectiveness and undermines the public’s trust that the tax laws will be enforced fairly.

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<sup>51</sup> William Hoffman, “Koskinen Prefers Permanent Replacement as Brady Calls for Ouster,” *Tax Notes*, April 6, 2017.

<sup>52</sup> Department of the Treasury, “The Budget of the United States Government, Fiscal Year 2017,” p. 1051, <https://obamawhitehouse.archives.gov/sites/default/files/omb/budget/fy2017/assets/tre.pdf>.

<sup>53</sup> IRS, “Enforcement Statistics,” <https://www.irs.gov/uac/enforcement-statistics-criminal-investigation-ci-enforcement-strategy>.