



CENTER FOR TAXPAYER RIGHTS

The IRS Budget: Exploring IRS Service & Enforcement Categories
and Re-Thinking Performance Measures

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Topics to Cover

- Setting the Stage: Funding Provided Under the Inflation Reduction Act
- Defining the Role of the IRS
- Impact of The Budget and Appropriations Process
- Maintaining and Improving Compliance
- Budgetary Bias Toward Enforcement
- Program Integrity Cap Adjustments
- Rethinking Compliance



Inflation Reduction Act, Pub. L. No. 117-169

- \$45.6 billion for tax enforcement activities including hiring new examination agents, providing legal support and investing in “investigative technology”
- \$25.3 billion for operations support, including improved telecommunications and information technology
- \$3.2 billion for taxpayer services including filing support and account services
- \$4.8 billion for business systems modernization projects



Internal Revenue Service Inflation Reduction Act Strategic Operating Plan

FY2023 – 2031

Released April 6, 2023

- Outlines how the IRS plans to deploy the increased Inflation Reduction Act funding under five specified objectives and 42 distinct initiatives:
 - Objective 1: Improve Taxpayer Service (12 initiatives)
 - Objective 2: Issue Resolution (7 initiatives)
 - Objective 3: Expand Enforcement (7 initiatives)
 - Objective 4: Technology, Data and Analytics (8 initiatives)
 - Objective 5: Workforce (8 initiatives)



Fiscal Responsibility Act of 2023, Pub. L. No. 118-5

Debt ceiling legislation signed into law on June 3, 2023

- Rescinds \$1.4 billion in previously authorized FY 2023 funding for IRS “enforcement and related activities”
- Also understood to repurpose an additional \$20 billion in FY 2024 and FY 2025 IRS funding, cutting the \$79.6 billion in funding provided for by the Inflation Reduction Act



Current Developments Illustrate the Challenges

- FY 2024 IRS Appropriations
 - Senate Appropriations Committee mark-up of Financial Services and General Government Spending Bill, keeping IRS budget flat at FY 2023 levels while clawing back \$10 billion in IRA funding
 - House Appropriations Committee mark-up reduces IRS's budget by 9 percent from FY 2023 levels and claws back \$67 billion of IRA funding
- September 8, 2023 IRS Enforcement Announcement
 - Outlining efforts to “restore fairness to tax system with Inflation Reduction Act funding”
 - “Major expansion” of high-income/high wealth and partnership compliance work
 - “Targeted compliance” and “helping working taxpayers through improving compliance selections”



Defining the Role of the IRS

- Continuing the Move Toward a More Effective, Trusted and Inclusive IRS
- Cultural Framework Arising From IRS's Historic Focus on Revenue Collection
- More Recent Shift in Role of the IRS as a Benefit Funder Without Commensurate Shift in Cultural Framework
- IRS Leadership Considerations
- How to Continue Moving Toward IRS 2.0?



Impact of the IRS Budget Process

- President's Annual Budget Proposal
- Appropriations Committee Consideration of Treasury Budget
- IRS Budget Dynamics Drive Chasing of Often Misplaced Metrics
- "Tax Gap" and Revenue Estimating
 - Differing approaches of Joint Committee, Congressional Budget Office and Treasury Office of Tax Analysis on *e.g.*, revenue effect of IRS funding increase
 - *Compare, e.g.,* Natasha Sarin & Lawrence H. Summers, *Shrinking the Tax Gap: Approaches and Revenue Potential* (Tax Notes Nov. 19, 2019)
- Impact of IRS Budget Dynamics on Innovation, Progress and Risk



Enforcement Focus + Budget Process

- IRS's Historic Focus on Tax Collection Creates a Cultural Mindset in Conflict With Inclusiveness and Transparency
- All Large Organizations Have an Institutional Bias Against Risk
- Budget-Driven Focus on Narrow Metrics
 - Increases in *enforcement* rather than improving *compliance*
 - Traditional revenue measures do not take into consideration strategies known to improve compliance, *e.g.*, improved form design, increase in published guidance, settlement initiatives
- Need to Identify and Address These Drivers Moving Forward
 - Expand the compliance measurement metrics
 - Reward risk taking and creative approaches, even when they fail



Maintaining & Increasing Voluntary Compliance

- The goal of most, if not all, tax administration activities is to maintain and increase voluntary compliance by reducing taxpayer burden and meeting current service expectations (*e.g.*, on-line account access)
- This goal is reflected in The IRS Mission Statement:

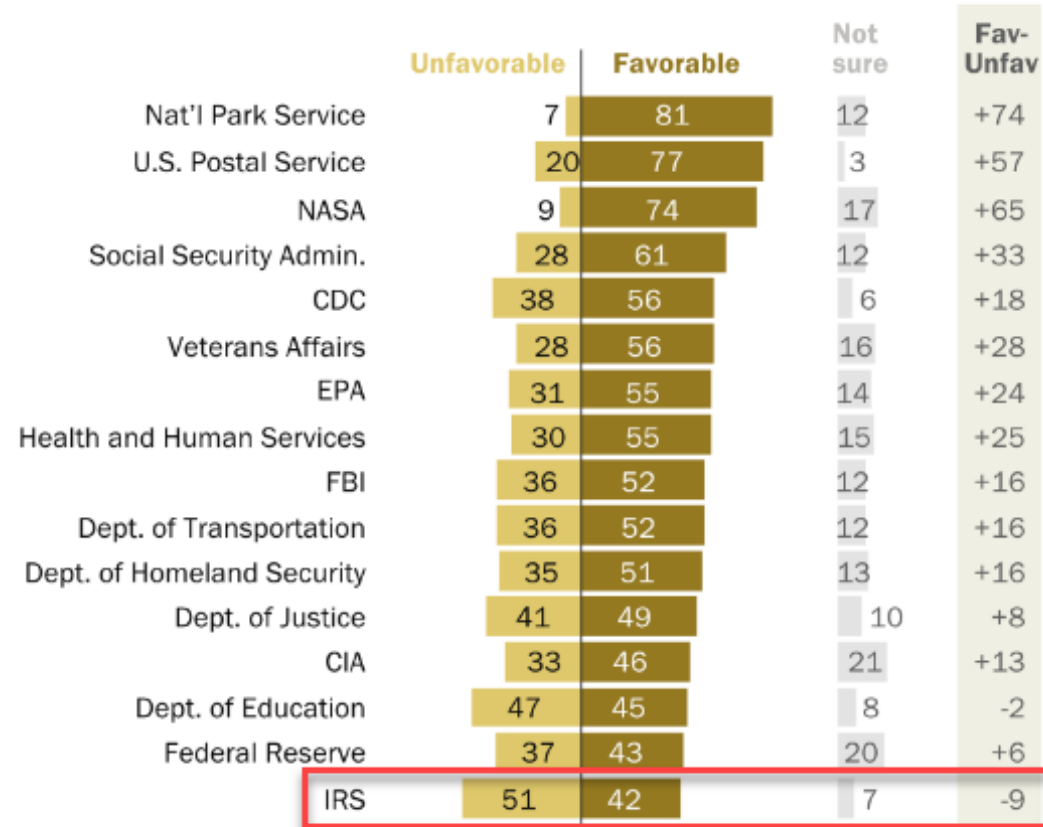
*Provide America's taxpayers top quality **service** by helping them understand and meet their tax responsibilities and **enforce** the law with integrity and fairness to all.*

- Despite “service” coming before “enforce” in the mission statement, Americans are more likely to associate the agency with the latter, rather than the former



Large majorities of Americans see the National Park Service, U.S. Postal Service and NASA favorably

% who have a(n) ___ opinion of each federal agency



Notes: "Fav-Unfav" column is the percentage favorable minus the percentage unfavorable. No answer responses not shown.

Source: Survey of U.S. adults conducted March 13-19, 2023.

PEW RESEARCH CENTER

- Last March, the Pew Research Center asked Americans whether they had a favorable or unfavorable opinion of 16 federal agencies
- The IRS was the least favorable agency and the only agency most Americans view unfavorably



Maintaining & Increasing Voluntary Compliance

- The Pew results continue a recent downtrend in public trust in the IRS
- Highlighted in the most recent IRS Comprehensive Taxpayer Attitude Survey (CTAS) for the 2021 Tax Year
 - A third of Americans “completely” or “mostly disagree” that they trust the IRS to help them understand their obligations
 - Taxpayers’ trust in the IRS to fairly enforce the tax laws dropped to its lowest percentage since 2014 (66% compared to 72% in 2020)
 - Compared to the 2020 CTAS, more taxpayers believe that the IRS devotes too much of its resources to enforcement activities and not enough to its customer service programs
 - A minority, 39% of taxpayers, believe the IRS maintains a proper balance between service and enforcement



Maintaining & Increasing Voluntary Compliance

- Despite public (and political) perception around enforcement, service and automation play a much larger role in fulfilling the IRS's mission
 - Audits and Enforcement are only a small piece of the puzzle, with ~\$68 billion collected annually through enforcement action out of ~\$3.3 trillion in “total true tax liability” (2014 – 2016 tax gap estimates)
- Beyond the ~\$68 billion in reported annual enforcement revenue, the IRS must have ways to measure how its actions, tools, and programs maintain or increase voluntary compliance
- Positive perceptions of enforcement that run counter to taxpayer sentiment have had an outsized influence on IRS operations



Budgetary Bias Toward Enforcement

- Historically, additional funding, in excess of applicable spending ceilings, has been available for IRS enforcement through a mechanism known as the “program integrity cap adjustment”
- Under this mechanism, additional funding for IRS enforcement programs generally does not count against otherwise applicable spending ceilings as long as:
 - 1) The IRS’s existing enforcement base is fully funded; and
 - 2) A determination is made that the proposed additional expenditures will create a return on investment of greater than 1:1



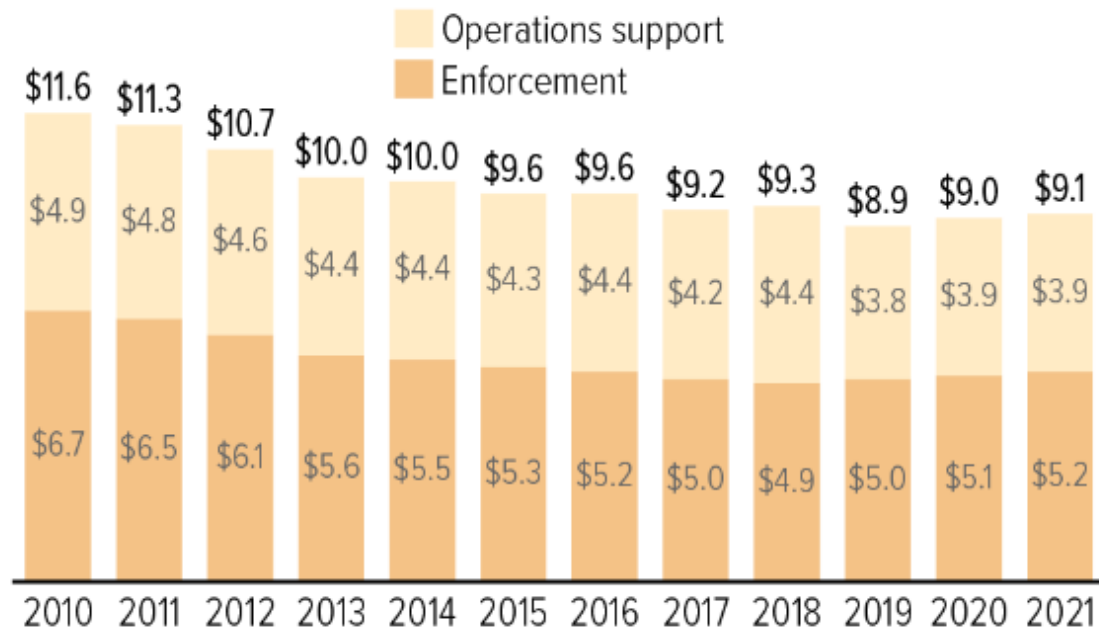
The Necessity of Program Integrity Cap Adjustments

- The IRS Congressional Budget Justification and Annual Reports for 2020-2022 proposed Program Integrity Cap Adjustments of between \$311 million and \$416 million
 - These funds were used to increase Audit and Collection Coverage and operations support for enforcement efforts
- IRS funding from Program Integrity adjustments has always been limited to enforcement activities
- Before the Inflation Reduction Act, IRS budget cuts had eroded funding for enforcement



Funding for Enforcement and Operations Support Has Eroded

In billions of 2021 dollars



Note: Totals may not add due to rounding. Does not include funding from coronavirus relief legislation enacted in April and December of 2020. Operations support includes office space, information services, and other functions that support the enforcement division.

Source: CBPP analysis based on Office of Management and Budget and Congressional Budget Office data

- Despite hundreds of millions of dollars in funding for Program Integrity Adjustments in 2020 and 2021, overall funding for enforcement and operations support activities was much lower than just a decade before
- Program Integrity Cap Adjustments were necessary to sustain an underfunded IRS



Rethinking Compliance

- Service-centered measures can generate a positive return on investment
 - The Taxpayer Advocate Service (TAS) has studied the impact of education letters on EITC compliance
 - Using sample sizes of about 8,400 returns and a comparable control group of more than 16,000 returns, TAS concluded that:
 - Where an EITC claimant error was not meeting the relationship test, the TAS letter enhanced compliance for the following three years
 - Where an EITC claimant error was not meeting the residency test, a TAS letter that included an extra help phone number enhanced compliance for the following two years



Rethinking Compliance

- While the IRS limits Program Integrity funding for enforcement activities, the Department of Health and Human Services incorporates enforcement and education into Medicare and Medicaid Program Integrity Planning
 - Medicaid Integrity Institute – Provides both classroom training and distance learning webinars to enhance the professional qualifications of state Medicaid integrity staff nationwide
 - Online Resources for Provider and Beneficiary Education – Infographics and additional resources posted on the Centers for Medicare and Medicaid Services website





RESOURCES FOR BENEFICIARIES

We have developed a variety of educational resources that will help beneficiaries better understand Medicaid. For more information, please visit Medicaid.gov and your state's Medicaid website.



Infographics

These one-page infographics are suitable for displaying on bulletin boards, in waiting areas, and other locations that beneficiaries regularly visit.



Don'ts of Medicaid



There are rules Medicaid beneficiaries must follow. If you break the rules, you are breaking the law. Know the "Don'ts of Medicaid" so you don't get in trouble.

- Don't intentionally provide false information to qualify for Medicaid.
- Don't share your Medicaid card, medical record, or other medical information with anyone except your doctor or a health care professional.
- Don't sign a blank medical form. Read and understand it, then answer all the questions. Write "N/A" for "not applicable" in sections you don't need to complete.
- Don't ask for medical services that you don't need, like extra referrals or tests. This wastes Medicaid funds.
- Don't sell your Medicaid supplies, equipment, or medications to others.
- Don't accept money or anything of value from individuals in exchange for going to medical appointments, or for receiving tests, medical equipment, or any other Medicaid service.
- Don't ask for the same prescription from different doctors. This is a dangerous practice called doctor shopping.
- Don't alter your prescriptions or sell prescription drugs to family, friends, or drug dealers. This is called drug trafficking and it is illegal.

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Medicare and Medicaid

Two government programs to help people pay for health care – how they differ.

Medicare

Care for People Who Are Older, Disabled, or Chronically Ill

- Administered by Federal government.
- Benefits are 100% Federal funds.
- Eligibility based on age (65 and over), disability, or chronic illness.
- Coverage is Federally mandated and generally includes hospital, outpatient, nursing home, and prescription drugs.
- No financial tests to qualify.

Medicaid

Care for People With Limited Incomes and Resources

- Administered by States.
- Benefits are a combination of State and Federal funds.
- Eligibility based on limited income and resources.
- Coverage varies by State but generally includes most medical services prescribed by a doctor or dentist.
- Income and asset tests vary by State.

Total Beneficiaries in Millions

54*
Medicare

68*
Medicaid

10**
Dual Eligible



* September 2014
** January 2014

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