



Internal Revenue Service Budget, FY2017

Overview

The Internal Revenue Service (IRS) collects most of the revenue needed to fund the federal government and enforces federal tax laws. In FY2016, the IRS processed 244.2 million tax returns and other forms and collected \$3.3 trillion in gross taxes.

Appropriated funds accounted for nearly 93% of the funds available to the IRS for obligation in FY2015, the most recent year for which actual figures are available. The remainder consisted of reimbursements, offsetting collections, user fees, and unobligated balances from previous years. Historically, the agency's appropriations have been distributed among four accounts: taxpayer services, enforcement, operations support, and business systems modernization (BSM). In FY2015, enforcement received about 45% of the \$10.650 billion in IRS appropriations, followed by operations support (34%), taxpayer services (20%), and the BSM program (10%).

Table I. FY2017 Budget Request and FY2016 Appropriations
(millions of dollars)

	FY2016 Enacted	FY2017 Request	FY2017 Enacted
Taxpayer Services	\$2,156	\$2,406	\$2,157
Enforcement	4,860	5,216	4,860
Operations Support	3,638	4,314	3,638
Business Systems Modernization	290	343	290
Administrative Provision	290	—	290
Total	\$11,235	\$12,280	\$11,235

Source: IRS FY2017 Budget Justification, House Report on H.R. 5485, Senate Report on S. 3067, and P.L. 115-31.

The Obama Administration requested \$12.280 billion in appropriations for the IRS in FY2017, or 9.3% more than the amount enacted for FY2016. According to the Administration's justification for the budget request, the added funding was to be used to maintain FY2016 operating levels, improve taxpayer services, develop more effective methods of boosting taxpayer compliance, make IRS operations more efficient, and expand programs to prevent identity theft and related tax fraud.

On July 7, 2016, the House approved a bill (H.R. 5485) that would have given the IRS \$10.999 billion in appropriations for FY2017, or \$236 million less than the amount enacted for FY2016 and \$1.281 billion less than the Administration's budget request.

On June 16, 2016, the Senate Appropriations Committee reported a measure (S. 3067) that would have given the IRS \$11.235 billion in appropriations for FY2017, or the same amount that was enacted for FY2016 and \$1.045 billion less than the budget request.

After being funded through two continuing resolutions during the first seven months of FY2017, the IRS received a final budget for the year when President Trump signed the Consolidated Appropriations Act, 2017 (P.L. 115-31) on May 5, 2017. The act provides the IRS with the same amount of appropriations in FY2017 that it received in FY2016: \$11.235 billion.

It should be noted that the IRS has unrestricted access to additional funds for its operating expenses. They fall outside the appropriations process and stem from a variety of sources, including reimbursable expenses, user fees, offsetting collections, and unobligated balances from previous years. IRS's miscellaneous resources totaled an estimated \$1.139 billion in FY2016 and are expected to decrease to \$947 million in FY2017.

Individual Accounts

Taxpayer Services

Funding for taxpayer services pays for the costs associated with helping taxpayers meet their tax obligations, producing tax forms and publications, processing tax returns and other documents, and providing taxpayer advocacy services.

The IRS's FY2017 budget request allocated \$2.406 billion to taxpayer services, or \$73 million more than the total amount appropriated for FY2016. This difference included the \$177 million that was transferred to the taxpayer services account in FY2016 from the \$290 million provided in Section 113 of the administrative provisions for the IRS in P.L. 114-113. The Obama Administration said the added funds would be used to improve taxpayer services.

Under H.R. 5485, as passed by the House, the IRS would have received \$2.156 billion for taxpayer services in FY2017, or the same as the amount enacted for FY2016 but \$250 million less than the budget request.

In its report on S. 3067, the Senate Appropriations Committee also recommended that the IRS receive \$2.156 billion for taxpayer services in FY2017.

P.L. 115-31 gives the IRS \$2.156 billion for taxpayer services in FY2017. Of that amount, \$8.9 million is reserved for the Tax Counseling for the Elderly Program, \$12 million for low-income taxpayer clinic grants, and \$15 million for matching grants under the Volunteer Community Tax Assistance Program.

Enforcement

Funding for enforcement enables the IRS to undertake a variety of activities aimed at ensuring that taxpayers meet their tax obligations in a timely manner. These activities include the examination of U.S. and foreign tax returns, the collection of overdue taxes, the investigation of criminal violations of the federal tax code, and the settlement through judicial or administrative proceedings of taxpayer appeals of examination findings.

Under the Administration's budget request for FY2017, the IRS was to receive \$5.216 billion in appropriations for enforcement activities, or \$356 million more than the amount enacted for FY2016. The requested amount included a program integrity cap adjustment of \$231 million under the Budget Control Act of 2011 (P.L. 112-25).

H.R. 5485, as passed by the House, would have given the IRS \$4.760 billion for enforcement activities, or \$100 million less than the amount enacted for FY2016 and \$556 million less than the budget request. None of the funds could be used to implement the Affordable Care Act (ACA, P.L. 111-148).

As reported, S. 3067 would have provided \$4.860 billion in appropriations for enforcement, or the same amount that was enacted for FY2016 and \$356 million less than the budget request.

P.L. 115-31 provides \$4.860 billion for enforcement with no program integrity budget cap adjustment.

Operations Support

Funding for operations support covers expenses for overall planning and direction, shared services and support for facilities, rent, printing, postage, security, and the maintenance, upgrade, and security of agency telecommunications and information systems.

The Obama Administration asked Congress for \$4.314 billion in appropriations for operations support in FY2017, or \$567 million more than the total amount enacted for FY2016. The requested amount included a program integrity cap adjustment of \$283 million.

H.R. 5485, as passed by the House, would have provided the IRS with \$3.502 billion for operations support, or \$136 million less than the amount enacted for FY2016 and \$812 million less than the budget request.

S. 3067, as reported, recommended that the IRS receive \$3.638 billion for operations support, or the same amount that was enacted for FY2016 but \$676 million less than the budget request.

Under P.L. 115-31, the IRS is receiving \$3.638 billion for operations support, of which \$50 million will be available for obligation through the end of FY2018.

Business Systems Modernization

The BSM program began in 1998 and is intended to upgrade critical information systems, such as automated taxpayer accounts. Funding for the program covers expenses related to project planning and the acquisition of information technology developed for the program.

In its budget request for the IRS, the Administration sought \$343 million in appropriations for BSM, or \$53 million more than the amount enacted for FY2016.

Both H.R. 5485 (as passed by the House) and S. 3067 (as reported) would have provided \$290 million in appropriations for BSM in FY2017, or the same amount that was enacted for FY2016 but \$53 million less than the budget request.

P.L. 115-31 endorses the amount recommended by H.R. 5485 and S. 3067.

Other Issues

Administrative Provisions

P.L. 115-31 includes several administrative provisions that apply only to the IRS. The notable ones are listed below:

- Section 104 ensures that enough funds are available to provide adequate toll-free telephone assistance for taxpayers, especially victims of identity theft.
- Sections 107 and 108 prohibit the IRS from using funds to target certain groups for added regulatory scrutiny because of their "ideological belief," or individuals for exercising their First amendment rights and freedoms.
- Section 110 requires the IRS, before awarding a bonus to a current employee or hiring a former employee, to take into consideration that person's performance as an IRS employee and compliance with tax laws.
- Section 112 bars the IRS from using any funds to develop a return-free tax filing system.
- Section 113 gives the IRS an additional \$290 million in FY2017 to implement "measurable improvements" in the level of customer service, the detection and prevention of identity theft and related refund fraud, and the security of the agency's information systems.
- Section 126 prohibits the IRS from using any funds to issue or revise regulations on the standards used to evaluate applications for tax exempt status by "social welfare" groups under section 501(c)(4) of the federal tax code.

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.