



Internal Revenue Service Budget, FY2018

Overview

The Internal Revenue Service (IRS) collects the vast share of the revenue needed to fund the federal government and enforces federal tax laws. In FY2017, the IRS processed 245.4 million returns and related documents for all federal taxes and collected \$3.4 trillion in gross revenue.

Appropriations account for nearly all of the funds available to the IRS for obligation. In FY2017, the most recent year for which enacted figures are available, 94% of those funds came from appropriations. The remainder consisted of reimbursements, offsetting collections, user fees, and unobligated balances from previous years. Under current law, the IRS may use these miscellaneous funds as it deems appropriate. They are expected to total an estimated \$1.059 billion in FY2018. (Non-appropriated funds are not included in **Table 1**.)

Historically, the agency’s appropriations have been distributed among four accounts: taxpayer services, enforcement, operations support (OS), and business systems modernization (BSM). As shown in **Table 1**, enforcement is receiving 42.5% of the \$11.431 billion in enacted IRS appropriations, followed by operations support (31.8%), taxpayer services (21.9%), the BSM program (1.0%), and an administrative provision (2.8%) in FY2018.

Table 1. Internal Revenue Service’s FY2018 Budget Request and FY2017 and FY2018 Appropriations
(millions of dollars)

	FY2017 Enacted	FY2018 Request	FY2018 Enacted
Taxpayer Services	\$2,157	\$2,212	\$2,507
Enforcement	4,860	4,706	4,860
Operations Support	3,638	3,946	3,634
Business Systems Modernization	290	110	110
Administrative Provision	290	—	320
Total	\$11,235	\$10,975	\$11,431

Source: IRS’s FY2018 Budget Justification and Joint Explanatory Statement for the Consolidated Appropriations Act, 2018 (P.L. 115-141).

After being funded through several continuing resolutions during the first half of FY2018, the IRS received a final budget for the year when President Trump signed the Consolidated Appropriations Act, 2018 (P.L. 115-141) on March 23, 2018. The act provides \$196 million more in

appropriations than the IRS received in FY2017 (see **Table 1**).

For FY2018, the Trump Administration requested \$10.975 billion for the IRS, or 2.3% less than the amount enacted for FY2017 (see **Table 1**). According to the Treasury Department’s justification for the budget request, it was built around three elements: (1) an increase of \$220.0 million to maintain FY2017 operating levels, (2) a transfer of \$179.4 million from the BSM account to the OS account to reduce the backlog of deferred computer software and hardware updates, and (3) a decrease of \$459 million from cutbacks and other costs across all four accounts. The transfer was treated as both a program increase for OS and a program decrease for BSM, resulting in no net change in requested FY2018 appropriations from the enacted amount for FY2017. Moreover, under the budget request, the number of full-time employees at the IRS would total 71,035, or 5,797 fewer employees than the average number in FY2017. According to budget documents, the IRS planned to meet its FY2018 objectives by becoming more streamlined in its operations and relying more on user fees to meet critical needs.

Individual Appropriation Accounts

Taxpayer Services

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

The Trump Administration’s FY2018 budget request for the IRS allocated \$2.212 billion to taxpayer services, or \$55 million more than the enacted amount for FY2017. Of the requested amount, \$600.7 million would have gone to pre-filing taxpayer assistance and education, and \$1.612 billion to filing and account services. In addition, \$6.5 million was to be set aside for the Tax Counseling for the Elderly program, \$12.0 million for low-income taxpayer clinic grants, \$15.0 million for matching grants under the Volunteer Income Tax Assistance (VITA) program, and \$206.0 million for the Taxpayer Advocate Service (TAS).

P.L. 115-141 provides \$2.507 billion for taxpayer services, in FY2018, or \$295 million above the budget request. Of this amount, \$9.9 million is set aside for the Tax Counseling for the Elderly program, \$12.0 million for low-income taxpayer clinic grants, \$15.0 million for VITA grants (available through the end of FY2019), and \$206.0 million for TAS, \$5.0 million of which must be used for identity theft casework. The act also requires the IRS to submit reports in FY2018 to the House and Senate Appropriations Committees on steps it is taking to combat taxpayer identity theft, improve toll-free telephone and in-

person assistance for taxpayers, and prevent the closure of Taxpayer Assistance Centers.

Enforcement

Funding for enforcement enables the IRS to undertake a variety of activities to ensure 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 FY2018, the IRS would have received \$4.706 billion in appropriations for enforcement activities, or \$154 million less than the amount enacted for FY2017. Of this amount, \$606.7 million would have gone to investigations, \$3.968 billion to examinations and collections, and \$131.9 million to regulatory guidance and related activities.

Under P.L. 115-141, the IRS is getting \$4.860 billion in appropriations for enforcement in FY2018, or \$154 million more than the budget request. The only stipulation in the act related to enforcement activities is that the IRS must notify each appropriations committee, as well as the House Ways and Means Committee and the Senate Finance Committee, before reducing the number of employees involved in the SS-8 processing program for determining a worker's status for employment taxes.

Operations Support

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

The Trump Administration requested \$3.946 billion in appropriations for OS in FY2018, or \$308 million more than the amount enacted for FY2017. Of this amount, \$860.6 million would have been used for the maintenance of infrastructure unrelated to information technology (IT), \$1.011 billion for shared services and support (including research into taxpayer compliance), and \$2.074 billion for IT services and support.

P.L. 115-141 provides \$3.634 billion in appropriations for FY2018, or \$312 million less than the budget request.

Business Systems Modernization

The BSM program, begun in 1998, is intended to upgrade or create critical information systems, such as automated taxpayer accounts. Funding for the program covers expenses for project planning and the acquisition of IT.

In its budget request for FY2018, the Trump Administration sought \$110 million in appropriations for BSM, or \$180 million less than the amount enacted for FY2017.

The Consolidated Appropriations Act, 2018 maintains funding for the BSM program at \$110 million in FY2018. It also directs the IRS to submit quarterly reports during

FY2018 to the two appropriations committees and the Government Accountability Office (GAO) on the cumulative cost and performance record of major IT investments made under the program. The IRS is also required to submit to the same entities semi-annual reports on the cost, schedule, and goals of IT projects. GAO in turn is required to give its own assessment of the projects' cost and "functionality."

Administrative Provisions

P.L. 115-141 also contains 14 administrative provisions that apply to IRS appropriations in FY2018. Some of the key provisions are shown below:

- Section 104 directs the IRS Commissioner to make further improvements in toll-free telephone assistance for taxpayers a "priority."
- Sections 107 and 108 bar the IRS from using appropriated funds to subject certain groups to added regulatory scrutiny because of their "ideological belief"; the same ban applies to targeting individuals for exercising their First Amendment rights and freedoms.
- Section 112 bars the IRS from using any appropriated funds to develop or implement a return-free (or pre-populated) tax filing system.
- Section 113 provides the IRS with \$320 million to implement the provisions of a new tax law (P.L. 115-97). It also requires the IRS to submit a report to the two appropriations committees within 30 days of the enactment of P.L. 115-141 on its overall plans for spending the money, by account and object class. This report is to be followed by quarterly reports providing detailed information on obligations by account.
- Section 125 bars the IRS from using any funds to issue or revise regulations on the criteria used to evaluate applications for tax-exempt status under Section 501(c)(4) of the federal tax code.

Issue for Congress

If P.L. 115-141 had not included an additional \$320 million to implement the new tax law, enacted IRS appropriations in FY2018 would have fallen below the amount for FY2017. Such a result would continue a trend of budget cuts for the IRS that goes back to the early 2000s. In light of the significant increase in the IRS's workload and administrative responsibilities since then, it could be argued that Congress is expecting the agency to do more with less by becoming more efficient. One issue that looms large in the debate over making the IRS more efficient and taxpayer-friendly is the condition of the agency's information systems. According to some analysts, many of these systems are outdated, and key improvements are costing more and taking longer than initially expected to develop and implement. The portion of the FY2018 IRS budget (BSM and OS) that covers the cost of maintaining and upgrading its information systems is \$184 million below the enacted amount for FY2017.

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