



July 29, 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 the vast share of the IRS’s 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 H.R. 7668
Taxpayer Services	\$2,512	\$2,563	\$2,603
Enforcement	5,010	5,071	5,206
Operations Support	3,809	4,105	4,058
Business Systems Modernization	180	300	250
<b>Total</b>	<b>\$11,511</b>	<b>\$12,039<sup>a</sup></b>	<b>\$12,117</b>

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

a. Excludes \$400 million in Program Integrity Initiatives under the ENF and OS accounts.

## Specific Appropriations Accounts

### Taxpayer Services

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. 7668, as reported, recommends that the IRS receive \$2,603 million in FY2021 for taxpayer services, or \$40 million more than the budget request. In its report (H.Rept. 116-456) on the bill, the House Appropriations Committee urges the IRS to do more to promote use of the Free File Program. It also directs the agency to develop a plan for allowing taxpayers to receive notices and information on taxpayer rights in languages other than English and Spanish.

### Enforcement

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, \$60.3 million is set aside for the Interagency Crime and Drug Enforcement program, and \$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. 7668, as reported, would provide the IRS with \$5,206 million in appropriations in FY2021 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, recommended appropriations for enforcement are \$135 million more than the budget request.

Among other things, the committee report on the bill 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

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. 7668, as reported, would provide the \$4,058 in appropriations for OS in FY2021. This amount is \$167 million less than the budget request with the proposed \$120 million program integrity cap adjustment, and \$47 million less than the budget request without the adjustment. H.R. 7668 does not endorse the cap adjustment for OS.

### Business Systems Modernization

This account covers costs related to the upgrade of 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. 7668, as reported, recommends \$250 million in appropriations for the BSM program in FY2021, or \$50 million less than the budget request. The report on the bill directs the IRS to continue providing quarterly reports on the cost and status of BSM-funded projects, such as CADE 2 and the Enterprise Case Management System.

### 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 it contains two new provisions. Section 111 would allow the IRS to transfer its unobligated, expired appropriations to the OS budget to pay for technology investments and the upgrade of IRS’s facilities. Certain restrictions would apply.

Section 112 would authorize the IRS to reprogram up to \$10 million in appropriations at the end of a fiscal year without prior congressional approval. The reprogramming would allow the IRS to allocate funds to meet its highest priorities.

H.R. 7668, as reported, contains one administrative provision not included in the budget request. Section 111 of the bill would create a “Nonrecurring Expenses Fund” for the IRS. It is unclear from the language of the bill how money in the fund could be used and how the fund would be financed.

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Gary Guenther, Analyst in Public Finance

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