



Updated April 10, 2023

Internal Revenue Service Appropriations, FY2023

Overview of the IRS Budget

The Internal Revenue Service (IRS) has two primary responsibilities: (1) collecting most of the revenue to fund federal government agencies and programs, and (2) enforcing taxpayer compliance with federal tax laws through taxpayer services and activities like audits. In FY2021, the agency processed 269 million tax returns and collected \$4.1 trillion in gross revenue and \$75 billion in enforcement revenue.

The IRS’s operating budget is a blend of annual appropriations and miscellaneous resources. In FY2021, 90.5% (\$11.92 billion) of that budget came from appropriations. The remaining 9.5% (\$1.25 billion) consisted of (1) reimbursements from other government agencies for IRS-provided services, (2) offsetting collections, (3) user fees, and (4) carryovers of unobligated balances from previous fiscal years. The IRS has considerable leeway in how it uses nonappropriated funds.

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** suggests, ENF has been the largest of the four in recent years, accounting for just over 44% of FY2023 enacted appropriations.

Overview of the FY2023 IRS Budget Request

The Biden Administration requested \$14.1 billion in IRS appropriations for FY2023, nearly 11.0% more than the FY2022 enacted amount. Requested funding for each of the four appropriations accounts is also larger. Relative to FY2022, requested TS funding was 21.8% greater, ENF funding 7.8% greater, OS funding 10.8% greater, and BSM funding 12.7% greater. Including an estimated \$1.1 billion in miscellaneous resources, the IRS’s FY2023 operating budget would have totaled \$15.2 billion.

In a departure from standard practice, the budget request adjusted the requested amounts for TS and ENF for “employee support costs.” The adjustment would have reduced requested OS FY2023 funding by \$709 million and transferred that amount to TS (\$299 million) and ENF (\$411 million), to more accurately reflect actual employment costs for TS and ENF activities. These costs encompass employee compensation, hiring and training costs, and the information technology and office space to allow employees to be productive.

The budget request also set aside \$320 million for implementing the Taxpayer First Act (P.L. 116-25) provisions. In general, the provisions codify and strengthen taxpayer rights and compel the IRS to become more taxpayer-friendly by bolstering its cybersecurity, adopting more advanced interactive technologies, and developing a comprehensive taxpayer service strategy. Funding for this

purpose would have come from three accounts: TS (\$119 million), ENF (\$54 million), and OS (\$147 million). Another \$10 million was reserved for a Mississippi Delta hiring initiative, as part of IRS efforts to reach out to underserved communities.

Action in the House and the Senate

In December 2022, Congress passed a bill (P.L. 117-328, Consolidated Appropriations Act [CAA], 2023) funding most government operations in FY2023, including the IRS’s. The agency’s enacted appropriations (see **Table 1**) were identical to FY2022 for three of the four appropriations accounts; the only difference is that Congress provided no funds for the BSM program in FY2023.

Table 1. IRS’s FY2023 Appropriations, Excluding Nonappropriated Funds

(billions of dollars)

Account	FY2022 Enacted	FY2023 Request	FY2023 Enacted
TS	\$2.781	\$3.386	\$2.781
ENF	\$5.438	\$5.862	\$5.438
OS	\$4.101	\$4.543	\$4.101
BSM	\$0.275	\$0.310	\$0
Total	\$12.595	\$14.100	\$12.320^a

Sources: IRS’s FY2023 Budget Justification and Consolidated Appropriations Act, 2023 (P.L. 117-328).

Notes:

- This figure does not include any of the funds the IRS received from Congress to implement pandemic-related tax benefits, which totaled \$3.1 billion when they were enacted. The supplemental funds came from P.L. 116-136, P.L. 116-260, and P.L. 117-2.

P.L. 117-169 (Inflation Reduction Act)

In August 2022, President Biden signed into law P.L. 117-169, commonly called the Inflation Reduction Act or IRA, which included \$78.9 billion in mandatory funding for the IRS; the funds are available for obligation until September 30, 2031. The law specified how that amount should be distributed among the IRS’s four appropriations accounts. These funds are available regardless of the amounts received by the IRS through annual appropriations. The figures in **Table 1** exclude IRA’s mandatory funding. This is the first time that Congress has approved multiyear funding for the IRS’s appropriations accounts.

FY2023 IRS Appropriations

Taxpayer Services (TS)

This account pays for prefilling assistance and education, filing and account services, taxpayer advocacy services, and associated support costs.

The CAA 2023 provides \$2.781 billion in appropriations for taxpayer services. Of this amount, \$100 million is available through the end of FY2024. In addition, not less than \$11 million is set aside for the TCE program; \$26 million for low-income taxpayer program grants, which are limited to no more than \$200,000 for a single clinic; \$40 million (available until September 30, 2024) in matching grants for the Community Volunteer Income Tax Assistance program; and \$236 million for the Taxpayer Advocate Service (\$7 million of which would be reserved for casework involving identity theft and refund fraud.)

Enforcement (ENF)

This account covers the costs associated with collecting taxes owed, legal and litigation support, criminal investigations, and enforcement of tax laws.

The CAA 2023 provides \$5.438 billion in ENF appropriations in FY2023. Of this amount, \$250 million is available through the end of FY2024; \$60.3 million goes to the Interagency Crime and Drug Enforcement program; and \$25 million is set aside for the acquisition of “investigative technology” by the Criminal Investigation Division (CID), in addition to any amounts for the division provided through OS appropriations.

Operations Support (OS)

This account funds the operation of the IRS’s infrastructure, including headquarters maintenance, agency information systems, and operating expenses for the Internal Revenue Service Oversight Board.

The CAA 2023 provides \$4.101 billion for OS. Of this amount, \$275 million is available through the end of FY2024; \$10 million is reserved for capital projects like acquiring equipment and repairing facilities; and \$1 million is available for research through the end of FY2025. This funding depends on the IRS submitting quarterly reports to both appropriations committees and the U.S. Comptroller General on the status, results, and costs of technology improvement projects in the IRS’s Integrated Modernization Business plan.

Business Systems Modernization (BSM)

This account pays for expenses related to the BSM program, such as the acquisition of information technology systems and related services.

The CAA 2023 provides no appropriations for the BSM program in FY2023. It is unclear why Congress chose this course of action. The Biden Administration, the House, and the Senate Finance Committee all called for \$310 million in BSM appropriations in FY2023.

Administrative Provisions

The IRS’s FY2023 appropriations are subject to 12 administrative provisions (or policy riders). They are intended to inform the IRS about specific congressional priorities in how the agency spends appropriated funds. The provisions in the CAA address a variety of issues important to Congress, such as an employee training program focused on taxpayer rights, safeguarding the confidentiality of taxpayer information, and preventing identity theft.

All but two of the provisions have been included in previous IRS appropriations measures.

One new provision (Section 111) specified that the IRS may use FY2023 appropriated funds to recruit and hire qualified applicants under a “direct-hire authority” to process “backlogged tax returns and return information” only. Direct-hire authority allows a federal agency to recruit and hire qualified applicants to fill positions for which there is a severe shortage of candidates or a critical hiring need without going through the standard rating and review process. In February 2022, OPM granted the IRS direct-hire authority to hire up to 10,000 persons to work in the agency’s accounts management and submission processing units. This authority will expire at the end of 2023.

Section 111 was a way of signaling the IRS that Congress expected it to use its current direct-hire authority to reduce backlogs of unprocessed returns and taxpayer correspondence before using the authority to address other critical hiring needs.

The other new provision (Section 112) allowed the IRS to use appropriated funds to transport the IRS Commissioner, for his/her protection, between his/her residence and place of employment.

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IF12098

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