



April 29, 2024

# Internal Revenue Service Appropriations, FY2025

## Overview of the IRS Budget

The Internal Revenue Service (IRS) is responsible for (1) collecting most of the revenue to fund federal government agencies and programs, and (2) enforcing taxpayer compliance with federal tax laws through activities like taxpayer assistance and audits. In FY2023, the agency processed nearly 272 million tax returns and related forms, collected \$4.7 trillion in gross revenue, and issued \$659 billion in refunds.

The IRS’s operating budget is a mix of annual appropriations and other resources. In FY2024, appropriations accounted for 58% (\$12.3 billion) of the \$21.0 billion IRS budget. The remaining 42% (\$8.6 billion) came from unobligated balances from previous years, reimbursable items, user fees, and \$7.3 billion of the \$79 billion in mandatory funding provided by P.L. 117-169 (also referred to as the Inflation Reduction Act, or IRA; see below for more details on the IRA’s impact on IRS funding). The IRS has considerable leeway in how it uses these other resources.

IRS appropriations are distributed among four accounts: taxpayer services, enforcement, operations support, and business systems modernization (BSM). As **Table 1** shows, enforcement is the largest of the four in FY2024, accounting for 44% of enacted appropriations.

**Table 1. Enacted FY2023 and FY2024 and Requested FY2025 IRS Appropriations**

(billions of dollars)

Account	FY2023 Enacted	FY2024 Enacted	FY2025 Request
Taxpayer Services	\$2.78	\$2.78	\$2.78
Enforcement	\$5.44	\$5.44	\$5.44
Operations Support	\$4.10	\$4.10	\$4.10
Business Systems Modernization	\$0.00	\$0.00	\$0.00
<b>Totals</b>	<b>\$12.32</b>	<b>\$12.32</b>	<b>\$12.32</b>

**Sources:** IRS’s FY2025 Budget Justification; and Further Consolidated Appropriations Act, 2024 (P.L. 118-47).

**Note:**

- a. These amounts do not include any of the \$79 billion in IRA funding or the \$21.6 billion in rescissions of those funds since IRA was enacted.

## Inflation Reduction Act

The IRA provided the IRS with \$78.9 billion in mandatory funding that is available for obligation from FY2022 to FY2031. This marked the first time Congress provided the IRS with multiyear funding. The act specified that \$45.6 billion of this amount will go to enforcement, \$25.3 billion to operations support, \$4.8 billion to BSM, and \$3.2 billion to taxpayer services. Funds designated for one purpose (e.g., taxpayer services) cannot be used for a different purpose (e.g., enforcement).

By the end of calendar-year 2023, the IRS had expended \$4.4 billion in IRA funds; of that amount, \$1.1 billion was for taxpayer services, nearly \$0.5 billion for enforcement, \$1.8 billion for operations support, and \$1.0 billion for BSM. Nearly \$2.0 billion of expended IRA funds were used to pay for FY2023 operating costs and inflation adjustments not covered by enacted appropriations.

Congress rescinded \$1.4 billion in unobligated IRA enforcement funding in the Fiscal Responsibility Act of 2023 (P.L. 118-5). Another \$20.2 billion in IRA money was rescinded in the law (P.L. 118-47) providing FY2024 IRS appropriations. The two rescissions have reduced the amount of IRA funds available to the IRS in FY2024 to about \$57 billion, including funds already expended.

In April 2023, the IRS released a 10-year “strategic operating plan (SOP)” intended to guide the use of IRA funds to reach the following goals: (1) improve taxpayer services to help taxpayers meet their tax obligations and receive the tax benefits for which they are eligible; (2) quickly resolve taxpayer issues; (3) reduce the federal tax gap by boosting examinations of tax compliance by high-income persons and partnerships with complex returns; (4) deliver “cutting-edge technology” for the IRS’s taxpayer services and enforcement initiatives; and (5) build and retain a highly skilled and diverse workforce.

## FY2025 Budget Request

The Biden Administration is requesting the same amount of IRS appropriations in FY2025 that were enacted for FY2023 and FY2024: \$12.32 billion. Its request for each of the four appropriations accounts is also identical. But the proposed FY2025 IRS budget (\$22.8 billion) would be nearly \$2 billion larger, owing to an anticipated drawdown of \$9.3 billion in IRA funds, which would be \$2 billion more than the expected drawdown of \$7.2 billion in FY2024.

## Taxpayer Services

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

The FY2025 budget request provides \$2.8 billion in appropriations for taxpayer services. Of this amount, \$100 million is available through the end of FY2026. In addition, not less than \$11 million is for the Tax Counseling for the Elderly program, not less than \$26 million for Low-Income Taxpayer Clinic grants capped at \$200,000 per clinic, and not less than \$55 million (available until September 30, 2026) for matching grants for the Community Volunteer Income Tax Assistance program. The budget request also provides \$236 million to the Taxpayer Advocate Service (TAS), \$7 million of which is to be used for cases involving identity theft and refund fraud.

### Enforcement

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

The budget request provides \$5.4 billion in appropriations for enforcement in FY2025. Of this amount, \$250 million is available for obligation until the end of FY2026; \$60.3 million is set aside for the Interagency Crime and Drug Enforcement program; and \$35 million is for the acquisition of “investigative technology” by the IRS Criminal Investigation Division.

### Operations Support

This account funds the operation and maintenance of key elements of the IRS’s infrastructure, including research and statistics of income, headquarters maintenance, information systems and operation, and telecommunications.

The FY2025 budget request provides \$4.1 billion in appropriations for operations support. Of that amount, \$275 million is available for obligation until the end of FY2026; \$10 million is available until spent for equipment purchases and the “construction, repair, and renovation of facilities”; and \$1 million (available through FY2026) is for research.

The budget request asks Congress to rename this appropriations account “Technology and Operations Support.” The IRS’s rationale for the name change is two-fold. First, most of the funding for Operations Support already is used to maintain and operate the IRS’s information systems. Second, with the denial of BSM appropriations since FY2023, SOP technology modernization projects may be funded through the Operations Support budget after the \$4.8 billion in IRA BSM funds are used up.

Under the budget request, the IRS is to submit quarterly reports to the House and Senate appropriations committees and the U.S. Comptroller General that summarize the status of the IRS’s information technology (IT) investments, focusing on plans and costs for the remainder of the fiscal year. The budget request also directs the IRS to include in its FY2026 budget documents a summary of expected costs and results for its major IT systems during that year.

### Business Systems Modernization

This account pays for BSM program expenses, such as the acquisition of IT systems and related services. BSM funds are used only for the development, modernization, and enhancement of the agency’s information systems. Historically, funds from the operations support account

have paid for the operation and maintenance of implemented projects.

The FY2025 budget request provides no appropriations for the BSM account. If the BSM request is enacted, FY2025 would mark the third year in a row that the account has received no discretionary funds. The IRS requested \$310 million for BSM in FY2023 and \$290 million in FY2024, but Congress denied any discretionary funding. A lack of such funding may result in the IRS drawing upon IRA funds to cover BSM expenses normally paid for out of annual appropriations.

### Administrative Provisions

Appropriations laws typically include provisions (also known as riders) directing a federal agency to engage in or eschew specified actions. The IRS FY2025 budget request includes two riders not applicable to FY2024 discretionary funding. One new rider would extend the IRS’s Direct Hire authority through FY2027 to fill positions with a “critical hiring need” and for which there is a “severe shortage of qualified candidates.” The other new rider would extend through FY2031 the IRS’s authority to offer higher base salaries to recruit and retain up to 200 employees with skills deemed critical to the achievement of the SOP goals.

### Policy Issues

The FY2025 budget request raises several policy issues. One issue is the purchasing power of requested IRS appropriations. Enactment of the request would mean that discretionary FY2025 IRS funding would be less in 2023 dollars than enacted FY2023 discretionary funding. This loss of purchasing power would have to be addressed through a cutback in IRS operating expenses or a diversion of IRA funds from achieving the transformative objectives of the SOP to maintaining FY2023 operating levels. Such a diversion has already happened: the IRS used \$2.0 billion of IRA funds to supplement its FY2023 appropriations and may draw on another \$818 million to maintain FY2023 operating levels in FY2024.

Another issue is the revenue effects of cuts in IRA mandatory funding. Two rescissions of this funding totaling \$21.6 billion have already been enacted, and some Members would like to rescind the remaining \$57.3 billion. The rescinded funds might be taken out of IRA’s enforcement funds. They are mainly intended to shrink the federal net tax gap, which averaged \$625 billion in 2020 and 2021, according to the most recent IRS estimate. A recent Congressional Budget Office analysis estimated that a \$20 billion rescission in IRA enforcement spending implemented in FY2030 and FY2031 could result in a \$44 billion drop in federal revenues from FY2024 to FY2034.

To address these concerns, the IRS proposes in its FY2025 budget request to extend mandatory funding through FY2034 with another \$104 billion between FY2024 and FY2034, making total IRS mandatory funding (including rescissions) from FY2022 to FY2034 equal to \$162 billion.

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