

Budget issues dominate as Senate taxwriters consider IRS ‘customer service challenges’

Budget issues dominated the discussion at a February 17 Senate Finance Committee hearing focused on the backlog of unprocessed tax returns at the Internal Revenue Service from tax year 2020 and the “customer service challenges” facing the agency in the current filing season. As was the case at a similar hearing recently held by the House Ways and Means Oversight Subcommittee, the debate over whether congressionally mandated budget cuts during the past decade may have contributed to the decline in customer service at the agency left taxwriters divided along party lines.

The current tax filing season opened on January 24, with the IRS still struggling to complete work on roughly 6 million unprocessed original tax returns from the 2020 tax year, as well as a separate backlog of amended returns and taxpayer correspondence. The pile-up generally has been attributed to the combined effects of an increased workload as the IRS implemented emergency tax code changes—such as recovery rebate payments and monthly child tax credit payments—that were enacted in the American Rescue Plan last March plus operational disruptions facing the agency as it dealt with pandemic-related facilities shutdowns and staffing shortages. In recent days, the Service announced that it has temporarily reassigned 1,200 employees to tackle processing and correspondence and will soon deploy a second so-called “surge team” to assist in clearing the aging inventory. It also has created a new resource page on its website to provide updates on the current filing season and the status of efforts to complete work on previously filed tax returns and has paused sending out certain notices and warning letters to taxpayers until the backlog is addressed.

URL: <https://www.irs.gov/newsroom/help-for-taxpayers-and-tax-professionals-special-filing-season-alerts>

Partisan divide on IRS budget, tax gap

Finance Committee Chairman Ron Wyden, D-Ore., contended in his opening statement at the hearing that systematic cuts to the Service’s operating budget while Republicans controlled Congress led to a deterioration of the agency’s taxpayer service function and left it poorly positioned to deal with the acute stresses placed upon it by the COVID-19 pandemic.

Those budget cuts also have eroded the Service’s enforcement function, according to Wyden—an issue that he said has become especially problematic as the tax code has become more complex and a spike in sophisticated tax-avoidance transactions by wealthy taxpayers has widened the “tax gap” (the difference between the amount of tax legally owed to the government and the amount actually collected).

“When the tax rules get more complicated and the IRS’s enforcement division shrinks even more, it’s no surprise that high-flyers see a green light for cheating,” Wyden said.

Finance Committee ranking member Mike Crapo, R-Idaho, countered that the IRS’s budget kept pace with inflation while Congress was under GOP control and that the agency typically received the amounts that it requested each year during the annual appropriations process.

Crapo also contended that the current focus by Democrats on IRS budget cuts is an attempt to justify their own proposal in the Build Back Better Act to provide an additional \$80 billion for IRS enforcement efforts. (The Build Back Better legislation, which cleared the House last November and is now stalled in the Senate, would provide the \$80 billion bump for enforcement funding over 10 years.)

According to Crapo, the Democratic proposal “would have virtually doubled the budget of the IRS over a period of time, and would have been focused almost entirely [on] funding an army of new auditors to go after the so-called ‘tax gap. . . .’”

The bulk of the tax gap, Crapo contended, is attributable not to wealthy tax evaders but to lower- and middle-income taxpayers “who are having difficulty figuring out how to deal with the complex IRS code.”

Greater consensus on IT modernization

Wyden and Crapo generally agreed, however, on the need to modernize the Service’s information technology infrastructure, which consists of a patchwork of antiquated systems—some of which date back to the 1960s—that are poorly coordinated and difficult for taxpayers, practitioners, and IRS employees to navigate.

National Taxpayer Advocate Erin Collins, who appeared as one of the witnesses at the hearing, told the panel that the Service has a plan for modernizing its information systems and a clear idea of what it would cost to implement it. But she noted that actually putting that plan in motion would be difficult without a multiyear funding commitment from Congress.

In an exchange with ranking member Crapo, Collins explained that without sustained funding dedicated to rebuilding IT infrastructure from the bottom up, the Service is forced to direct most of its resources to applying “band-aids” to sustain its current system.

Another witness, Jessica Lucas-Judy of the Government Accountability Office (GAO), noted that the GAO is reviewing the agency’s plan and agreed with Collins that multiyear funding is a prerequisite to a robust systems modernization effort.

Staffing issues

Two Republican taxwriters—Sens. Charles Grassley of Iowa and James Lankford of Oklahoma—asked about difficulties the Service has faced in its efforts to hire temporary workers to assist in addressing the backlog of unprocessed tax returns and correspondence. (The IRS had hoped to hire an additional 5,000 workers for the current filing season but thus far has only managed to fill about 200 of those openings.)

Collins told Grassley that giving the IRS direct-hiring authority would help alleviate that problem since it would speed up the process of filling open positions and ensuring that new employees are properly onboarded and trained.

In an exchange with Lankford, Collins added that direct-hiring authority would give the IRS a chance to be more competitive in attracting new employees across all experience levels.

Extend the filing season?

Senate Democratic taxwriter Mark Warner of Virginia asked the witnesses whether the IRS should consider extending deadlines for the current filing season, given the volume of unprocessed returns from the 2020 tax year and the ongoing staffing issues and other constraints the agency is facing because of the pandemic. (The deadline for filing tax year 2021 returns is April 18 for most taxpayers. IRS leaders thus far have not stated publicly that they are considering an extension.)

Collins replied that in her view, an extension would create more administrative headaches for the IRS since it would have to reprogram its systems to incorporate new deadlines, and also would have an adverse impact on states (which often key their filing deadlines to federal due dates) and return preparers. She also was doubtful that such an action would provide any significant benefit to taxpayers.

Another witness at the hearing, Jan Lewis of the American Institute of CPAs, said her organization does not currently have a position on the issue but will monitor it as the filing season continues. She added, though, that any extensions “should be announced as soon as possible” and should apply to the deadlines for filing, payments due, and for first quarter estimated tax payments.

— Michael DeHoff
Tax Policy Group
Deloitte Tax LLP

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