

House Appropriations panel OKs \$1 billion FY 2023 budget bump for IRS

The House Appropriations Financial Services and General Government Subcommittee on June 16 approved by voice vote a fiscal year 2023 budget package for the government departments and agencies under its jurisdiction that would increase topline funding for the Internal Revenue Service by roughly \$1 billion over the level enacted for FY 2022.

URL: <https://docs.house.gov/meetings/AP/AP23/20220616/114911/BILLS-117-SC-AP-FY2023-FServices.pdf>

Program allocations

The subcommittee's proposal would allocate a total of \$13.6 billion to the Service for the coming fiscal year, up from the \$12.6 billion that was enacted for FY 2022 this past March. (For details on the final FY 2022 spending agreement, see *Tax News & Views*, Vol. 23, No. 8, Mar. 11, 2022.) But the measure falls short of the \$14.1 billion that the Biden administration requested for the agency in its FY 2023 budget blueprint. (For details on the White House budget blueprint for FY 2023, see *Tax News & Views*, Vol. 22, No. 28, May 29, 2021.)

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220311_1.html

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210529_1.html

Here's how the proposed \$13.6 billion in IRS funding in the subcommittee-approved package would be allocated across the agency's four program areas:

- **Enforcement:** \$6.1 billion (FY 2022 enacted: \$5.4 billion; FY 2023 White House request: \$6.3 billion);
- **Taxpayer Services:** \$3.4 billion (FY 2022 enacted: \$2.8 billion; FY 2023 White House request: \$3.7 billion);
- **Operations Support:** \$3.8 billion (FY 2022 enacted: \$4.1 billion; FY 2023 White House request: \$3.8 billion); and
- **Business Systems Modernization:** \$310 million (FY 2022 enacted: \$275 million; FY 2023 White House request: \$310 million).

The appropriations package does not include a policy rider sought by a few House Democrats that would have prohibited the IRS from using its funds to block efforts by states and localities to implement workarounds to the \$10,000 annual cap on the deduction for state and local taxes (SALT) that was enacted in the Tax Cuts and Jobs Act of 2017 (P.L. 115-97). Many Democratic lawmakers whose constituents face high state and local income and property taxes have sought to ease the current-law cap or repeal it outright. But House Ways and Means Committee Chairman Richard Neal, D-Mass., told reporters June 16 that he would prefer that Congress address issues related to the cap through tax legislation rather than through the appropriations process. (The Build Back Better Act, which cleared the House last November, would temporarily raise the cap on the deduction to \$80,000, but that measure remains stalled in the Senate.)

Partisan lightning rod

Issues around the IRS's budget for taxpayer services and business systems modernization have been in the spotlight over the last few months as the agency struggled to complete work on millions of unprocessed paper income tax returns from tax year 2020 in the wake of COVID-related staffing shortages and facilities shutdowns. In recent hearings, Democrats on the two congressional taxwriting committees have contended that the backlog resulted from decades of congressionally mandated cuts to the agency's budget, while Republicans have argued the problem is largely the result of misplaced priorities rather than a lack of money. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 20, June 10, 2022.)

[URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220610_1.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220610_1.html)

The White House and congressional Democrats also have called for boosting the Service's enforcement budget to enhance the agency's efforts to narrow the "tax gap"—that is, the difference between the amount of tax legally owed to the government and the amount actually collected. Specifically, they contend that years of budget cuts left the Service with a dearth of experienced auditors to handle the increasingly complex returns filed by large corporations, passthrough businesses, and wealthy individuals, leading to a spike in foregone revenue.

The most recent official estimate from the IRS (covering 2011-2013) puts the gross annual tax gap at \$441 billion and the net annual tax gap at \$381 billion. (The net tax gap is the gross amount less any tax eventually collected through enforcement efforts or late payments.) IRS Commissioner Charles Rettig stated in 2021 that the gap may now equal or exceed \$1 trillion a year, and he recently told members of the House Ways and Means Oversight Subcommittee that he still stands by that estimate. (For prior coverage, see *Tax News & Views*, Vol. 22, No. 20, Apr. 16, 2021, and *Tax News & Views*, Vol. 23, No. 9, Mar. 18, 2022.) Rettig has indicated that the Service will release an updated estimate later this summer that will cover the period from 2014 through 2016 and will include projections for 2019. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 14, Apr. 8, 2022.)

[URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210416_3.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2021/TNV/210416_3.html)

[URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220318_1.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220318_1.html)

[URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220408_1.html](https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220408_1.html)

Addressing the proposed increase in the Service's enforcement budget, Appropriations Committee Chair Rosa DeLauro, D-Conn., stated at the subcommittee mark-up that "[w]e are working to finally crack down on big corporations and the wealthy who are not paying their fair share of taxes."

Next steps

The measure now heads to the full Appropriations Committee for consideration. A mark-up by that panel has not yet been scheduled.

Across the Rotunda, members of the Senate Appropriations Financial Services and General Government Subcommittee have not yet released their own proposed top-line spending numbers for the IRS.

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