$1.1 billion funding gap emerges as House and Senate appropriators clear rival FY 2024 IRS budgets

The contours of the debate over funding for the Internal Revenue Service for the coming fiscal year became clearer this week as the House Appropriations Committee approved a Financial Services and General Government funding measure that would provide the IRS a discretionary budget of $11.2 billion for fiscal FY 2024 and the Senate Appropriations Committee advanced its own version of that legislation that would give the agency $12.3 billion.

The topline spending number approved by Senate appropriators on July 13 by a unanimous vote of 29-0 conforms with the spending caps that President Biden and Speaker Kevin McCarthy, R-Calif., agreed to in the Fiscal Responsibility Act (P.L. 118-5), which was signed into law on June 3. That measure, which suspended the federal debt limit through January 1, 2025, also made certain fiscal policy changes—including provisions to keep nondefense discretionary spending flat for FY 2024 and limit annual growth to 1 percent for FY 2025 through 2029.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

The lower topline number approved by House appropriators in a 34-26 party-line vote on July 13 reflects recent demands by a bloc of Republicans in the House Freedom Caucus that Congress ignore the negotiated spending caps in the debt ceiling legislation and instead hold nondefense discretionary spending for the coming fiscal year at the levels in place for FY 2022. Freedom Caucus members underscored their point late last month by staging a protest over spending policy that essentially stymied action on unrelated measures on the House floor for several days. (For additional details on those developments, see *Tax News & Views*, Vol. 24, No. 25, June 23, 2023.)
URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2023/TNV/230623_4.html

Program allocations

Here's how the respective funding totals approved by the two panels would be parceled out among the Service's four program areas and how those proposed allocations compare to the amounts requested by the White House in its FY 2024 budget blueprint in March and the enacted levels in effect for FY 2023:

- **Enforcement:** House Appropriations Committee—$4.2 billion; Senate Appropriations Committee—$5.4 billion (White House request—$5.9 billion; FY 2023 enacted—$5.4 billion);
- **Taxpayer Services:** House Appropriations Committee—$2.8 billion; Senate Appropriations Committee—$2.8 billion (White House request—$3.4 billion; FY 2023 enacted—$2.8 billion);
- **Operations Support:** House Appropriations Committee—$4.1 billion; Senate Appropriations Committee—$4.1 billion (White House request—$4.5 billion; FY 2023 enacted—$4.1 billion); and
- **Business Systems Modernization:** House Appropriations Committee—$150 million; Senate Appropriations Committee—Zero (White House request—$289 million; FY 2023 enacted—Zero).

Both measures also would rescind just over $10 billion in mandatory funding for enforcement and operations support that had been allocated to the IRS for FY 2024 under the Inflation Reduction Act of 2022 (P.L. 117-169). That legislation gave the agency a total of roughly $80 billion in mandatory funding over 10 years; however, a "handshake" agreement that the president and Speaker McCarthy reached during the debt-limit negotiations but was not incorporated into the text of the Fiscal Responsibility Act calls for redirecting a total $20 billion of the supplemental IRS funding to other (unspecified) nondefense discretionary priorities over the next two fiscal years ($10 billion in FY 2024 and $10 billion in FY 2025).
URL: https://www.taxnotes.com/research/federal/legislative-documents/public-laws-and-legislative-history/inflation-reduction-act-of-2022-%28p.l.-117-169%29/7dybc

What's next?

Appropriations Committee leaders in both chambers have committed to approving their respective versions of the 12 spending bills required to fund the federal government ahead of the upcoming August congressional recess, which would clear the way for House and Senate floor action on those measures when the legislative session resumes in September. Resolving differences between the House- and Senate-approved appropriations packages and getting those measures to the White House could prove to be challenging—and time-consuming—if House Freedom Caucus members continue to insist on capping spending at FY 2022 levels, however.

Congress is required approve all 12 government funding measures before the start of the new fiscal year on October 1, although lawmakers can—and often do—resort to passing short-term continuing resolutions that allow federal departments and agencies to keep operating beyond that date at currently enacted funding levels until a more durable spending agreement is in place. It's worth noting, though, that the Fiscal Responsibility Act provides that current-law funding amounts would be subject to an automatic 1 percent cut if a continuing resolution remains in place beyond January 1 of next year.

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