# House appropriators grill Werfel on IRS request for additional mandatory funding

Internal Revenue Service Commissioner Daniel Werfel faced questions from a sometimes skeptical contingent of Republicans and a more receptive audience of Democrats as he defended the Biden administration's fiscal year 2025 budget request for the agency—including an extension of the 10-year mandatory funding stream enacted in the Inflation Reduction Act of 2022—during a May 7 hearing before the House Appropriations Financial Services and General Government Subcommittee.

This subcommittee has jurisdiction over funding for the Treasury Department and the IRS, among other federal agencies, so members of this panel will take the first crack at drafting the House version of an IRS appropriations package for fiscal year 2025, which begins on October 1 of this year.

**Administration's proposal**

The White House proposes to maintain the IRS's regular operating budget—that is, funding provided under the annual appropriations process—for the upcoming fiscal year at $12.3 billion, consistent with its fiscal year 2023 and 2024 allocations, as agreed to by President Biden and then-House Speaker Kevin McCarthy, R-Calif., in the Fiscal Responsibility Act of 2023 (P.L. 118-5) in June of last year and affirmed this past January in a handshake deal on government funding between current Speaker Mike Johnson, R-La., and Senate Majority Leader Charles Schumer, D-N.Y.
**URL:** https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

The budget plan also calls for extending the special mandatory funding allocation for the IRS enacted under the Inflation Reduction Act (P.L. 117-169) to strengthen the agency's enforcement and compliance operations, modernize its information technology systems, and improve its taxpayer service functions.
**URL:** https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

As enacted, the Inflation Reduction Act provided $80 billion in mandatory funding for the IRS through 2032; however, $20 billion of that amount was subsequently reallocated to other budget priorities in keeping with what the president and congressional leaders agreed to as part of their recent spending accords. The administration proposes to backfill that reduction by making the mandatory funding stream available through 2034—that is, for the additional years covered by the 10-year budget window in the fiscal year 2025 blueprint. In total, the agency would receive $104.3 billion in mandatory funding through 2034, with about half of that dedicated to enforcement, and lesser amounts dedicated to technology and operations support, taxpayer services, and business systems modernization. (For details on all of the tax proposals in the president's fiscal year 2025 budget blueprint, see *Tax News & Views*, Vol. 25, No. 11, Mar. 12, 2024.)
**URL:** https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312_1.html

**Republicans question audit priorities, bang for the buck from new funding**

Subcommittee Chairman David Joyce, R-Ohio, and several Republicans on the panel appeared wary of the IRS's plans to use the mandatory funding stream to expand its taxpayer compliance efforts—Joyce invoked the frequently repeated GOP argument that the agency intends to “rebuild an army of IRS agents”—and they questioned whether the Biden administration would adhere to its promise not to use those funds to increase audit rates on taxpayers with income of less than $400,000. Those taxpayers, Joyce said in his opening statement, “have enough to worry about amidst higher grocery, rent, and utility bills.”

More broadly, Republicans questioned why the agency needs additional funds—beyond the annual discretionary appropriation—to provide basic taxpayer services.

“It’s worth exploring why the IRS says it cannot deliver a successful filing season with the discretionary funds this subcommittee provides, especially considering that these funds account for almost half of this subcommittee’s allocation,” Joyce said.

**Audit focus:** Republican Steve Womack of Arkansas, a former chairman of the subcommittee, asked the IRS commissioner about the agency’s expanded audit focus and about the extent to which taxpayers with income below $400,000 contribute to the estimated $687 billion annual federal tax gap—the difference between the amount of tax legally owed to the government and the amount paid and collected on a timely basis.

Werfel, who emphasized in his opening statement that “there is no new wave of audits coming” for low- and middle-income taxpayers as a result of the new funding infusion, told Womack that the IRS is intent on increasing its scrutiny of large corporations, complex partnerships, and high-wealth individuals because those are the areas in which the agency “fell most behind” in the years leading up to the enactment of the Inflation Reduction Act. Large corporations, he noted, are now operating in a greater number of jurisdictions and engaging in increasingly complex tax transactions, which has made it more difficult for the IRS to determine their correct level of income and identify instances of potential tax-avoidance. The new funding, he said, is allowing the IRS to shore up its compliance resources—that is, by hiring specialized staff and moving toward more sophisticated technologies—to focus on those segments of the tax base where enforcement has been weakest.

Republican subcommittee member Mark Amodei of Nevada questioned why the IRS needs to expand its audit activity when federal tax collections appear to be approaching “record levels.”

Werfel acknowledged the increase in receipts but said they were attributable to population growth and an overall expansion of the economy. Audit rates, however, have not grown in the way that they should, he said.

Responding to a question from Amodei about specific steps the IRS has taken to prioritize audits of high-income, high-wealth individuals, Werfel commented that an Inflation Reduction Act-funded program targeting 1,600 ultrawealthy individuals who haven’t paid recognized tax debts has brought in more than $500 million in back taxes to date. He also noted that under a new program launched at the beginning of 2024, the IRS is sending out compliance letters to nonfilers with annual income of $400,000 or more. (In a recently released update to its strategic operating plan for implementing the mandatory funding, the IRS also announced plans to significantly increase audit rates on corporations with assets over $250 million, complex partnerships with

assets over $10 million, and wealthy individuals with total positive income over $10 million beginning in tax year 2026. For prior coverage, see *Tax News & Views*, Vol. 25., No. 17, May 3, 2024.)
**URL:** https://www.irs.gov/pub/irs-pdf/p3744a.pdf
**URL:** https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240503_1.html

**Value of technology improvements:** Amodei also pressed Werfel to identify concrete ways in which the IRS has used the Inflation Reduction Act funding to improve its information technology systems and whether those improvements have led to increased operating efficiencies and lower costs for the agency.

Werfel replied that the IRS has "dramatically" expanded its menu of digital options that allow taxpayers to interact with the agency from their laptops or smartphones—essentially setting up a system in which taxpayers can avoid having to visit an IRS office or wait for telephone assistance at an IRS call center if that is their preference. He also noted that the IRS's ongoing effort to move from a paper-based to a digital format for various IRS forms and returns cuts the time required for filing and processing and reduces the agency's overall operating costs.

In his exchange with Amodei, Werfel also told the panel that the new funding for information technology improvements will give the IRS the resources it needs to keep pace with growth in the tax system that is spawned by the changes Congress makes to the federal tax code. He noted, for example, that enactment of legislation mandating information reporting on digital currency meant that the IRS had to create a new infrastructure to implement the requirement since the agency's existing systems could not accommodate the demands of change in law.

**Democrats emphasize tax fairness**

The panel's Democrats, for their part, cast the IRS's expanded compliance efforts targeting large corporations and wealthy taxpayers as a matter of ensuring fairness in the tax code. Ranking member Steny Hoyer, D-Md., contended in his opening statement that further clawbacks of the Inflation Reduction Act funding would mean that "more high earners will be able to get out of paying the taxes that they owe under laws that are already on the books."

"Nobody likes to pay taxes, but all of us ought to pay the taxes that are legally owed under the laws that we pass. And Americans are particularly aggrieved when they think they are paying more than their fair share, where corporate executives are paying less than the people who work for them, in terms of percentage," he said.

Commissioner Werfel commented in an exchange with Hoyer that the administration's plan to extend and increase the IRS's mandatory funding stream will enable the agency to make a significant dent in the tax gap. Before the 2022 legislation was enacted, audit rates were at their "most anemic" levels in IRS history, he said, noting that the agency had just one auditor for every 150 "top-tier" taxpayers who had assets over $250 million and filed returns that in some cases were "tens of thousands of pages" or more in length.

“What we need to do is not only hire more people, but [also] provide them technology, data analytics, and subject matter expertise to unpack all that complexity,” he said. Without these actions, “[w]e are leaving a lot of money on the table.”

Rep. Rosa DeLauro, D-Conn., who is the ranking member of the full Appropriations Committee and was waived onto the subcommittee to participate in the hearing, chided Republicans for supporting the rescissions to the Inflation Reduction Act funding in the budget deal for fiscal year 2024.

“We have a revenue problem . . . and there is a refusal [among Republicans] to let the IRS collect legally owed taxes from billionaires [and corporations] in order to address the problem,” she said.

**Improved technology and child tax credit enhancements:** On the technology side, DeLauro praised the IRS’s ability to implement the now-expired enhancements to the child tax credit enacted in the American Rescue Plan Act of 2021 (P.L. 117-2), which, among other things, allowed taxpayers to receive the credit in advanceable monthly installments—a feature that required the creation of a special portal that allowed taxpayers to request the advance payments and allowed the IRS to process those payments and remit them to taxpayers. (The legislation also increased the credit amount and phase-out thresholds, made the credit fully refundable, and increased the age limit for a qualifying child.)
**URL:** https://www.congress.gov/117/plaws/publ2/PLAW-117publ2.pdf

DeLauro asked Commissioner Werfel how quickly the IRS would be able to put a similar program in place if Congress were to reinstate the American Rescue Plan provisions—including the election for advance direct payments of the credit—as the administration proposed in its latest budget blueprint.

Werfel replied that given the advances in its core technology the IRS has achieved with its Inflation Reduction Act funding, the agency would be able to re-engineer and implement an expanded child tax credit program “within weeks” if lawmakers decide to revive it.

**Impact of additional cuts:** Responding to a question from DeLauro, Werfel stated that further rescissions to the Inflation Reduction Act funding would limit the IRS’s ability to “hold taxpayers accountable who aren’t playing by the rules.” He also noted that funding cuts would have repercussions on the service side in the form of longer lines at IRS walk-in centers longer wait times on the telephone assistance line.

**Slogging through employee retention credit claims**

Turning to an issue not addressed in the administration’s budget blueprint, Republican Ashley Hinson of Iowa asked Werfel about the IRS’s progress in processing claims for the employee retention tax credit (ERTC), which was enacted in the 2020 Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136) as an emergency measure to help cash-strapped businesses keep employees on their payrolls in the wake of the nationwide economic shutdown brought on by the COVID-19 pandemic. The credit is limited to certain wages paid in 2020 and 2021 but may be claimed through April 15, 2024 (for tax year 2020) and April 15, 2025 (for tax year 2021). The IRS issued a moratorium on processing new ERTC claims in September of 2023 in response to a

perceived rise in fraud within the program—which the agency has attributed largely to the work of unscrupulous third-party promoters—during the preceding summer.
**URL:** https://www.congress.gov/116/plaws/publ136/PLAW-116publ136.pdf

Werfel replied that the IRS is continuing to process claims that were submitted before September 14, 2023, when the moratorium took effect, but it does not yet have a timeline for addressing claims received after that date and will conduct an “assessment of inventory” to determine the best way to proceed. He noted that there is a high level of questionable ERTC claims in the IRS’s current inventory and the work involved in identifying and weeding out those claims has hampered the agency’s ability to process refunds for taxpayers who legitimately qualify for the credit.

Werfel also told the panel that taxpayers have withdrawn some $400 million in ineligible ERTC claims under a special compliance program the IRS put in place shortly after the moratorium was announced, and he urged other taxpayers who have filed what they know to be improper claims to rescind them. Taxpayers who received refunds based on improper or questionable ERTC claims have repaid roughly $700 million to the government under a separate voluntary disclosure initiative that the IRS announced last December, Werfel said. (The application deadline to participate in that program was March 22, 2024.)
**URL:** https://www.irs.gov/newsroom/irs-announces-withdrawal-process-for-employee-retention-credit-claims-special-initiative-aimed-at-helping-businesses-concerned-about-an-ineligible-claim-amid-aggressive-marketing-scams
**URL:** https://www.irs.gov/newsroom/irs-new-voluntary-disclosure-program-lets-employers-who-received-questionable-employee-retention-credits-pay-them-back-at-discounted-rate-interested-taxpayers-must-apply-by-march-22

The Tax Relief for American Families and Workers Act (H.R. 7024), a bipartisan tax package put forward earlier this year by House Ways and Means Committee Chairman Jason Smith, R-Mo., and Senate Finance Committee Chairman Ron Wyden, D-Ore., includes a provision intended to clamp down on improper ERTC claims by accelerating the deadline for filing additional claims for the credit to January 31, 2024, imposing new reporting requirements and restrictions on promoters of the credit, and extending by one year the statute of limitations for the IRS to assess penalties on improper claims. That legislation cleared the House in late January with a strong bipartisan majority but currently remains stuck in the Senate. (See separate coverage in this issue for the latest on the bill’s status in that chamber.)
**URL:** https://www.congress.gov/bill/118th-congress/house-bill/7024/text

— Michael DeHoff
Tax Policy Group
Deloitte Tax LLP