

## House Appropriations panel OKs \$2.2 billion IRS budget cut for FY 2025

The Republican-led House Appropriations Financial Services and General Government Subcommittee on June 5 approved by voice vote a fiscal year 2025 budget package (text; summary) for the federal departments and agencies under its jurisdiction that would allocate \$10.1 billion to the Internal Revenue Service—nearly \$2.2 billion less than the level in effect for the current fiscal year and the amount the Biden administration requested in the FY 2025 budget blueprint it sent to Congress this past March.

**URL:** <https://docs.house.gov/meetings/AP/AP23/20240605/117405/BILLS-118-SC-AP-FY2025-FServices-FY25FSGGSubcommitteeMark.pdf>

**URL:** <https://appropriations.house.gov/sites/evo-subsites/republicans-appropriations.house.gov/files/evo-media-document/fy25-fsgg-subcommittee-bill-summary.pdf>

### Partisan divide

The smaller proposed topline number for the IRS in the subcommittee-approved funding measure reflects a continuing demand by some conservative factions within the House Republican Conference to tamp down nondefense discretionary spending and bypass the spending caps that President Biden and then-House Speaker Kevin McCarthy, R-Calif., agreed to in the Fiscal Responsibility Act of 2023 (P.L. 118-5), which was signed into law 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. That measure suspended the federal debt limit through January 1, 2025, and also made certain fiscal policy changes—including provisions to keep nondefense discretionary spending flat for fiscal year 2024 and limit annual growth to 1 percent for fiscal years 2025 through 2029.

**URL:** <https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf>

On IRS funding specifically, many Republicans continue to argue that the agency is overly focused on audits of small businesses and middle-income taxpayers. Subcommittee Chairman David Joyce, R-Ohio, emphasized that point in his opening statement at the mark-up, commenting that the proposed budget cuts—which fall largely within the IRS’s enforcement program—would “prevent the IRS from targeting hardworking Americans.”

Subcommittee ranking member Steny Hoyer, D-Md., expressing the general view of congressional Democrats, countered in his opening statement that funding for IRS enforcement “is not about harassing taxpayers”; rather, “it is about going after people who cheat on their taxes and, as a result, the rest of us, who don’t cheat, need to pay more.”

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 the agency’s fiscal year 2023 and 2024 allocations.

The administration’s budget blueprint also proposes to extend the special mandatory funding allocation for the IRS enacted under the Inflation Reduction Act (P.L. 117-169)—which is aimed at strengthening the agency’s enforcement and compliance operations, modernizing its information technology systems, and improving its

taxpayer service functions—and to reverse cuts to that funding stream enacted in recent spending accords. (More on that below. 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://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf](https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf)

[URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312\\_1.html](https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312_1.html)

## Impact on program allocations

Here’s how the IRS’s discretionary budget as approved by the subcommittee would fund the agency’s four program areas and how those proposed allocations compare to the levels in effect for FY 2024 and the amounts that the White House requested for the coming fiscal year:

- **Enforcement:** \$3.44 billion (FY 2024 enacted/FY 2025 White House request: \$5.4 billion);
- **Taxpayer Services:** \$2.78 billion (FY 2024 enacted/FY 2025 White House request: \$2.8 billion);
- **Operations Support:** \$3.75 billion (FY 2024 enacted/FY 2025 White House request: \$4.1 billion); and
- **Business Systems Modernization:** \$150 million (FY 2024 enacted/FY 2025 White House request: Zero).

## No additional cuts to mandatory funding—so far

As approved by the subcommittee, the Financial Services and General Government funding bill does not include further rescissions to the mandatory funding currently available to the IRS under the Inflation Reduction Act, although Chairman Joyce told reporters after his panel’s mark-up that such provisions could be added to the legislation when it is taken up by the full Appropriations Committee, either as part of a manager’s amendment or through amendments offered by individual committee members.

The Inflation Reduction Act as enacted in 2022 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 the spending agreements reached between the president and congressional leaders. 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 latest 10-year budget window in the fiscal year 2025 blueprint. In total, the Biden budget proposes that the agency 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.

In his comments to reporters, Joyce described the GOP’s attitude toward discretionary and mandatory budgeting for the IRS this way: “We want to do what’s consistent with allowing them to operate and have the wherewithal to operate but claw back as much as we can.”

For his part, Appropriations Committee Chairman Tom Cole, R-Okla., hinted shortly after he took the Appropriations gavel in April that he might be open to more rescissions, but he was careful to note that he was not making a blanket policy pronouncement.

“I don’t want to prejudge,” he told reporters when asked about future GOP efforts to chip away at that funding, “[but] I’ve supported what we’ve done so far.”

A mark-up by the full Appropriations Committee had not been officially scheduled as of press time, but press reports suggest that it could take place as early as the week of June 10.

### **Direct File prohibition and other policy riders**

The subcommittee-approved measure includes a policy rider that would prevent the IRS from using any of its allocated funding “to develop or provide taxpayers a free, public electronic return-filing service option, without the prior approval of the Committees on Appropriations of the House and the Senate, [the] House Ways and Means Committee, and [the] Senate Finance Committee.”

The rider specifically is intended to freeze further action on the IRS’s Direct File initiative, an on-line platform the agency developed using its Inflation Reduction Act funding that allows taxpayers with relatively simple returns to file their taxes directly with the IRS at no cost. Direct File was launched as a limited pilot program (available to taxpayers in 12 states) for the 2024 filing season. The IRS recently announced that it intends to make the program available as a permanent option for taxpayers in all 50 states beginning in 2025, and gradually expand the range of tax-return issues that the platform can support.

**URL:** <https://www.irs.gov/newsroom/irs-makes-direct-file-a-permanent-option-to-file-federal-tax-returns-expanded-access-for-more-taxpayers-planned-for-the-2025-filing-season>

Republican lawmakers generally have been wary of Direct File, arguing that it requires congressional authorization and that allowing the nation’s tax collector to also be involved in the filing process gives the IRS too much power. Democrats have countered that halting the program would rob taxpayers of a free and convenient way of filing their returns. (IRS Commissioner Danny Werfel, for his part, has argued in appearances before various congressional committees that launching Direct File falls within the agency’s general authority to administer the tax system in ways that promote taxpayer convenience, that the Direct File does not put the IRS into the role of a tax return preparer since taxpayers are responsible for entering their own data into the system, and that Direct File is intended to serve as just one in an array of options available to taxpayers when they file their returns.)

**Other policy riders:** The subcommittee-approved measure also includes largely familiar provisions that would require the IRS to: provide employee training programs related to taxpayer rights and various customer service issues; institute policies to safeguard taxpayer information and protect against identity theft; issue confirmation notices for any address changes relating to an employer making employment tax payments; increase staffing for “1-800” telephone assistance; and allocate resources to improve response time for customer assistance requests—particularly for individuals who are victims of tax-related crimes.

In addition, the measure would prohibit the Service from using appropriated funds to target US citizens for exercising First Amendment rights, target groups for regulatory scrutiny based on their ideological beliefs, pay for conferences that do not meet standards and requirements laid out by IRS leadership, pay a performance bonus or other monetary award to a current employee or rehire a former employee without taking into

account their professional conduct and compliance with federal tax law, or violate the requirements of section 6103 regarding disclosure of tax returns and tax return information.

### **Yellen fields budget questions from Senate appropriators**

Across the Capitol, IRS discretionary and mandatory funding were addressed only in broad strokes when the Democratic-led Senate Appropriations Financial Services and General Government Subcommittee held a June 4 hearing with Treasury Secretary Janet Yellen to discuss the Biden administration's FY 2025 budget request for her department.

Yellen and the panel's Democrats generally lauded how the IRS has deployed the Inflation Reduction Act funding to recoup significant amounts of revenue from large corporations, complex partnerships, and wealthy individuals that have underpaid their taxes or failed to file returns altogether. In an exchange with subcommittee Chairman Chris Van Hollen, D-Md., Yellen also reiterated the IRS's commitment to comply with the White House mandate that forbids the agency from using that funding to increase audit rates (relative to historic levels) on small businesses and individuals with income of less than \$400,000.

Subcommittee ranking member Bill Hagerty, R-Tenn., commented in his opening statement that the IRS's decision to use the one-time Inflation Reduction Act funding to hire a host of permanent new enforcement and taxpayer service employees means that lawmakers will be "force[d] to make a difficult decision" once the mandatory funding stream runs dry, since the agency inevitably will ask Congress for an even bigger operating budget to avoid the prospect of layoffs. Hagerty also contended that the IRS has not been "forthcoming" about the true cost of the Direct File program. He did not pursue either of these issues during his subsequent questioning of Secretary Yellen, however.

### **What's next in the IRS funding fight?**

If the pared-down IRS funding package approved by House appropriators on the Financial Services and General Government Subcommittee this week clears the full Appropriations Committee and subsequently passes in a House floor vote on the strength of Republican votes alone—outcomes that appear likely—it is destined to encounter resistance in the Democratic-controlled Senate, where appropriators are more likely to approve an IRS funding package that aligns with the Fiscal Responsibility Act and the administration's budget blueprint.

Senate Appropriations Financial Services and General Government Subcommittee Chairman Chris Van Hollen dismissed the emerging House bill as "a nonstarter" when legislative text was made public on June 4. (As of press time, Van Hollen had not set a date for his panel to mark up its own funding proposal.)

Senate Finance Committee Chairman Ron Wyden, D-Ore., meanwhile, commented in a June 4 news release that the House measure would "deprive law-abiding taxpayers of the choice to file their taxes for free with the IRS's new direct file program by shutting it down before it expands nationwide"; moreover, he said, it would reward "rich tax cheats" and penalize "typical Americans who earn a wage [and] follow the law. . . ."

Ultimately, lawmakers may have to adopt a temporary stop-gap funding measure when the government’s fiscal year ends on September 30, meaning IRS funding and other contested issues could be kicked to a post-election “lame duck” session of Congress or even into next year when a new Congress (and perhaps a new president) will be empowered to craft a more durable budget.

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