House appropriators OK pared-down FY 2025 IRS budget proposal without further mandatory funding rescissions

House Republican efforts to cut the Internal Revenue Service's operating budget for the coming fiscal year continued this week as the GOP-led Appropriations Committee voted 33-24, along party lines, to approve a Financial Services and General Government funding measure on June 13 that would allocate $10.1 billion in discretionary funds to the IRS in FY 2025—some $2.2 billion below the current funding level and the amount requested by the Biden administration in its FY 2025 budget blueprint.

The measure does not, however, include additional rescissions to the 10-year mandatory funding made available to the agency in the Inflation Reduction Act of 2022.

Proposal at a glance

The committee-approved bill (text; summary) is identical to the measure reported out of the House Appropriations Financial Services and General Government Subcommittee on June 5, save for some technical changes that were incorporated into a manager's amendment ahead of this week's mark-up.
URL: https://docs.house.gov/meetings/AP/AP00/20240613/117435/BILLS-118-FC-AP-FY2025-AP00-FY25FSGGFullCommitteeMark.pdf
URL: https://appropriations.house.gov/sites/evo-subsites/appropriations.house.gov/files/evo-media-document/fy25-fsgg-full-committee-bill-summary.pdf

Here's an overview of how the proposed IRS budget, as approved by the House panel, compares with the funding levels currently in effect and the amounts that the White House requested for the coming fiscal year.

Reduced program allocations: Proposed allocations to the IRS's four program areas in the committee-approved bill break down this way:

- **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).

The Biden administration's proposed topline number for the IRS—$12.3 billion—is consistent with the agency's fiscal year 2023 and 2024 allocations and aligns with the discretionary 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. Among other things, the Fiscal Responsibility Act 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—and suspended the federal debt limit until January of 2025.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Since the Fiscal Responsibility Act was signed into law, however, a segment of conservative House Republicans has sought to hold nondefense discretionary spending closer to the levels in effect for fiscal year 2022. (Their contention has been that the caps included in the 2023 legislation set a ceiling for spending, but not a floor.)

No additional cuts to mandatory funding: The committee-approved bill, like the version cleared by the Financial Services and General Government Subcommittee, does not include further cuts to the 10-year mandatory funding allocated to the agency under the Inflation Reduction Act. Some Republicans had hinted after the June 5 subcommittee mark-up that rescissions might be folded in when the full committee took up the bill, either as part of a manager's amendment or through amendments offered by individual appropriators. No such modifications were offered, however, and the issue was not raised during the committee's deliberations.

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's latest budget package 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.

Direct File restrictions survive Democratic challenge: The committee-approved bill incorporates all the policy riders that were part of the Financial Services and General Government Subcommittee's legislation—including, most notably, a provision that would prohibit the IRS from using any of its allocated funding on its Direct File initiative without first getting approval from the appropriations committees and the taxwriting committees in both chambers.

An amendment from Financial Services and General Government Subcommittee ranking member Steny Hoyer, D-Md., which would have deleted that restriction from the bill was defeated by a vote of 23-33. (This was the only IRS-related amendment to be offered during the mark-up.)

Direct File is an on-line platform the agency developed using its Inflation Reduction Act funding to allow taxpayers with relatively simple returns to file their taxes directly with the IRS at no cost. It was launched as a limited pilot program (available to taxpayers in 12 states) for the 2024 filing season, but 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 the initiative 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 maintained 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.)

What's next?

If the pared-down IRS funding package approved by the House Appropriations Committee clears the full chamber on the strength of Republican votes alone—an outcome that appears likely—it is destined to encounter resistance in the Democratic-controlled Senate, where appropriators appear poised to move an IRS budget 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, D-Md., has dismissed the emerging House bill as "a nonstarter." (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, has commented 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. . . ."
URL: https://www.finance.senate.gov/chairmans-news/wyden-statement-on-house-republican-irs-budget-proposal

Quite possibly, though, lawmakers may have to adopt a temporary stop-gap funding measure to keep the government's doors open when fiscal year 2025 begins on October 1. In that event, IRS funding and other contested budget issues could be kicked to a post-election "lame duck" session of Congress—or even into next year, when the next Congress and the next presidential administration will be empowered to craft a more durable budget.

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