IRS has spent 10 percent of available Inflation Reduction Act funds, TIGTA says

The Internal Revenue Service as of March 31 has spent a total of $5.7 billion—roughly 10 percent—of the 10-year mandatory funding allocation available to it under the Inflation Reduction Act of 2022 (P.L. 117-169), according to a new report from the Treasury Inspector General for Tax Administration (TIGTA).
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf
URL: https://www.tigta.gov/sites/default/files/reports/2024-06/2024ier015fr.pdf

The Inflation Reduction Act as enacted initially provided roughly $80 billion in mandatory funding, available through the end of fiscal year 2031, to allow the IRS to beef up its enforcement and compliance resources, modernize its information technology, and overhaul its customer service operations. Since then, however, some $21.6 billion of that amount has been rescinded as part of bipartisan spending deals, including the Fiscal Responsibility Act of 2023 (P.L. 118-5) last June and the Further Consolidated Appropriations Act, 2024 (P.L. 118-47), this past March. (The rescinded funds came chiefly from the agency's enforcement allocation.)
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf
URL: https://www.congress.gov/bill/118th-congress/house-bill/2882/text

Spending so far

The TIGTA report, released June 18, indicates that IRS expenditures between the enactment of the Inflation Reduction Act in August of 2022 and the end of the first quarter of 2024 break down this way:

- **Taxpayer Services:** $1.4 billion (total 10-year allocation: $3.2 billion);
- **Enforcement:** $691 million (total 10-year allocation: $24 billion);
- **Operations Support:** $2.3 billion (total 10-year allocation: $23.3 billion); and
- **Business Systems Modernization:** $1.3 billion (total 10-year allocation: $4.8 billion).

Within each of these areas, labor costs (employee pay and benefits as well as contractor support) account for the bulk of the IRS's spending to date, the report states. Most of the labor costs have been attributable to new customer service hires who were brought on to handle telephone help lines and staff walk-in taxpayer assistance centers. But the report notes that the IRS intends expand its enforcement ranks by just over one-third in the coming months—from 13,700 as of this January to 18,328 by the end of fiscal year 2024—with the addition of new collections officers, auditors, and special agents to address tax noncompliance among large corporations, complex partnerships, and high-wealth individuals.

Covering discretionary appropriations shortfalls

The report notes that the IRS's total $5.7 billion Inflation Reduction Act spending draw includes $2 billion that it had to redirect to regular operating expenses for fiscal year 2023 that it could not cover with the annual discretionary budget allocation it received from Congress. Since Congress kept IRS funding flat for fiscal year 2024 (with no adjustment for inflation), the agency likewise anticipates that it will have to skim an additional

$1.6 billion from its Inflation Reduction Act funds to cover another anticipated discretionary budget shortfall, according to the report.

IRS Commissioner Danny Werfel told the House Ways and Means Committee earlier this year that forcing the IRS to spend its Inflation Reduction Act funds just to “keep the lights on” ultimately would undercut the agency’s efforts to modernize. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 7, Feb. 16, 2024.)
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240216_2.html

The congressional debate over discretionary funding levels for the IRS is likely to continue in the weeks ahead as House and Senate appropriators prepare budget proposals for fiscal year 2025, which begins this coming October 1. The Republican-led House Appropriations Committee earlier this month approved along party lines a Financial Services and General Government funding bill that would allocate $10.1 billion in discretionary funds to the IRS in the coming fiscal year—some $2.2 billion below both current funding levels and the amount requested by the Biden administration in the budget blueprint it sent to Congress in March. (For prior coverage, see *Tax News & Views*, Vol. 25, No. 21, June 14, 2024.) The committee-approved measure is expected to come up for a vote by the entire House sometime in July.
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240614_1.html

Appropriators in the Democratic-led Senate have not yet released an IRS funding proposal of their own but are generally expected to call for keeping discretionary spending for the agency at current levels for the coming fiscal year, as proposed by the White House.

Separate report looks at audits of high-income individuals

In other TIGTA developments, a separate report, released June 20, found that for tax years 2018, 2019, and 2020, the IRS met a Treasury Department directive issued in 2020 that required it to achieve an audit rate of at least 8 percent for taxpayers with total positive income of $10 million or more. The agency fell short of that mark for tax years 2016 and 2017, the report notes.
URL: https://www.tigta.gov/sites/default/files/reports/2024-06/2024300028fr.pdf

Following the enactment of the Inflation Reduction Act, however, the IRS shifted its audit focus from the $10 million total positive income threshold in the 2020 directive to a new standard laid out in a 2022 directive from Treasury Secretary Janet Yellen that requires the agency to use the 10-year mandatory funding stream allocated under that legislation to focus more broadly on audits of individuals with total positive income above $400,000, the report notes. (Yellen’s directive expressly forbids the IRS from using Inflation Reduction Act funds to increase audit rates, relative to historical levels, on taxpayers with income below this threshold.)

In explaining that shift, the IRS told TIGTA that the standard in the 2020 Treasury directive frequently led to audits that resulted in no additional tax owed. TIGTA found, however, that the rate of so-called “no change” audits tended to vary based on which IRS division conducted the examinations and which case selection methods were used. For example, audits by the Small Business-Self Employed Division for tax years 2016 through 2021 covering taxpayers with income over $10 million were, generally speaking, more productive than audits of taxpayers with income between $400,000 and $10 million, the report states. Conversely, the case selection measures used by the Large Business and International (LB&I) Division before the 2020 Treasury directive generally were more productive than those used for audits conducted after that directive was issued, according to the report.

TIGTA recommended that the IRS include a separate category for taxpayers with total positive income of $10 million or more in evaluating its compliance with audit targets for high-income taxpayers laid out in its strategic operating plan for administering Inflation Reduction Act funds. TIGTA also recommended that the IRS "identify the potential causes for the [LB&I] Division's low productivity examination results and monitor measures to ensure that the most productive returns are selected for examination."
URL: https://www.irs.gov/about-irs/irs-inflation-reduction-act-strategic-operating-plan

The IRS noted in response that it already tracks results for audits of high-income, high-wealth taxpayers, including those with total positive income of $10 million or more. It also pledged to identify the potential causes for the low-productivity examination results within LB&I and use enhanced data and analytics to select cases based on the highest risk of noncompliance.

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