Senate appropriators OK $12.3 billion FY 2025 IRS budget, setting up funding fight with House

The contours of the Internal Revenue Service budget debate for the coming fiscal year became clearer this week as the Senate Appropriations Committee approved a Financial Services and General Government funding measure that would provide the IRS a discretionary budget of $12.3 billion for FY 2025—an amount that's unchanged from the current funding level and equal to the Biden administration's request for the agency in the tax-and-spending blueprint it sent to Congress in March, but $2.2 billion more than what House appropriators agreed to in funding legislation that they approved in June.

The topline spending number for the IRS in the measure advanced by the Senate panel by a bipartisan vote of 27-0 on August 1 conforms with the spending caps that President Biden and then-House Speaker Kevin McCarthy, R-Calif., agreed to in the Fiscal Responsibility Act (P.L. 118-5), which was signed into law in June of last year. 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 IRS topline number—$10.1 billion—approved by House appropriators in a 33-24 party-line vote on June 13 reflects demands by a bloc of Republicans in the House Freedom Caucus that Congress ignore the negotiated spending caps in the Fiscal Responsibility Act and instead hold nondefense discretionary spending for the coming fiscal year at the levels in place for FY 2022.

Program allocations and other IRS provisions

Here's how the $12.3 billion allocated to the IRS in this week's Senate Appropriations Committee bill would be parceled out across the Service's four program areas and how those proposed allocations compare to the amounts approved by House appropriators and with those requested by the White House in its FY 2025 budget blueprint in March and the enacted levels in effect for FY 2024:

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

No additional cuts to Inflation Reduction Act mandatory funding: The Senate Appropriations Committee-approved bill, like its House counterpart, does not include cuts to the 10-year mandatory funding allocated to

the IRS under the Inflation Reduction Act of 2022 (P.L. 117-169) beyond the $20 billion in rescissions that were put in place as part of the agency's funding package for FY 2024.
URL: https://www.taxnotes.com/research/federal/legislative-documents/public-laws-and-legislative-history/inflation-reduction-act-of-2022-p.l-117-169/7dybc

The Inflation Reduction Act as originally enacted in 2022 provided $80 billion in mandatory funding for the IRS through 2032 to beef up the agency's compliance, information systems, and taxpayer services operations; however, a handshake agreement between the president and then-Speaker McCarthy during negotiations for the Fiscal Responsibility Act called for rescinding $10 billion of that amount in each of fiscal years 2024 and 2025 and reallocating it toward other (unspecified) domestic accounts. Ultimately, though, the entire $20 billion was rescinded and reallocated as part of the FY 2024 appropriations process. Republicans in both chambers have been vocal about wanting to claw back that funding even further, however.

Senate Appropriations Committee ranking member Susan Collins, R-Maine, and Financial Services and General Government Subcommittee ranking member Bill Hagerty, R-Tenn., who both voted for the financial services package, called for further cuts to the mandatory funding at the August 1 mark-up and noted that they hoped to revisit the issue in eventual negotiations with the House.

The Biden administration, for its part, proposed in its latest budget to backfill the $20 billion reduction in the FY 2024 spending deal by making the mandatory funding stream available through 2034—that is, for the additional years covered by the latest 10-year budget window in its FY 2025 blueprint. In total, the Biden budget calls for the agency to 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.

Chambers split on Direct File restrictions: Unlike the Financial Services and General Government funding bill making its way through the House, the measure approved by Senate appropriators this week does not include a policy rider 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.

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 announced in May 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. (Those arguments were advanced most recently in a July 31 letter to IRS Commissioner Danny Werfel from Senate Finance Committee ranking member Mike Crapo, R-Idaho, and

taxwriter John Barrasso, R-Wyo., that was co-signed by 17 additional GOP senators, including several Finance Committee members.) For the most part, Democrats have countered that halting the program would rob taxpayers of a free and convenient way of filing their returns.
URL: https://www.finance.senate.gov/ranking-members-news/crapo-barrasso-blast-irs-power-grab

Commissioner Werfel has argued in appearances before various congressional committees this year 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 the program is just one in an array of options available to taxpayers when they file their returns.

No further action until September

With the Senate now adjourned for an extended summer recess—House members left Washington on July 26—further action on government spending legislation is on hold until the week of September 9, when both chambers resume operations for what is expected to be an abbreviated pre-election legislative session. The House and Senate are expected to adjourn once again by early October to give lawmakers facing re-election a chance to make one final trek down the campaign trail.

To date, the full Senate has approved none of the 12 appropriations bills required to fund the government for FY 2025, which begins on October 1, although 11 of those measures have now been cleared by the Appropriations Committee with bipartisan support.

The Republican-controlled House, meanwhile, has approved five spending bills along party lines. The remaining seven have been cleared by appropriators and are ready for floor votes; however, GOP lawmakers have struggled to unite around several of these measures. Indeed, House GOP leaders actually began their summer recess a week early after they had to pull a vote on their own Financial Services and General Government funding package because of objections by Republican moderates to a policy rider that would block the District of Columbia from using federal funds for abortion-related services. They also had to scrap a vote on legislation funding the Department of Energy and the Army Corps of Engineers due to conservative opposition.

The sheer volume of appropriations work awaiting lawmakers in September—coupled with the significant gap emerging between House Republicans and Senate Democrats on topline spending numbers for federal department and agencies plus differences over various policy riders demanded by some GOP conservatives in the House—make it almost certain that Congress will be unable to agree on a set of measures to fully fund the government for the coming fiscal year by the October 1 deadline and will instead have to adopt a continuing resolution at current-year spending levels to keep the government's doors open when FY 2024 draws to a close at midnight on September 30.

It remains unclear, however, whether lawmakers will seek to punt the funding discussion into a post-election "lame duck" session or instead seek a longer-term stopgap into 2025.

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