



August 31, 2018

Internal Revenue Service Appropriations, FY2019

Overview

The Internal Revenue Service (IRS) has two main statutory responsibilities: to collect most of the revenue needed to fund the federal government and to enforce federal tax laws and regulations. In FY2017, the agency processed 245.4 million tax returns and other documents and collected \$3.4 trillion in gross revenue.

Appropriations typically provide most of the funds available for obligation by the IRS: in FY2017, 94% of those funds (\$11.235 billion) came from appropriations. The remaining 6% (\$710 million) consisted of reimbursements from other government agencies, offsetting collections, user fees, and unobligated balances from previous years. Under current law, the IRS is free to use these miscellaneous funds as it sees fit, without congressional approval.

Historically, the agency’s appropriated funds have been distributed among four accounts: taxpayer services (TS), enforcement, operations support (OS), and business systems modernization (BSM). As shown in **Table 1**, enforcement accounts for 43% of the \$11.431 billion in enacted appropriations for the IRS in FY2018, followed by OS (32%), TS (22%), and BSM (1%). Congress added \$320 million (3%) to the IRS budget in FY2018 to pay for the cost of implementing the tax revision law (P.L. 115-97).

Table 1. Internal Revenue Service’s FY2019 Budget Request and FY2018 Appropriations, Excluding Non-Appropriated Funds
(millions of dollars)

Account	FY2018 Enacted	FY2019 Request	House (H.R. 6147)	Senate (H.R. 6147)
Taxpayer Services	\$2,507	\$2,241	\$2,492	\$2,507
Enforcement	4,860	4,628	4,860	4,860
Operations Support	3,634	4,313	3,988	3,709
Business Systems Modernization	110	110	200	110
Administrative Provision	320	0	77	77
Total	\$11,431	\$11,135	\$11,617	\$11,263

Source: IRS’s FY2019 Budget Justification, H.R. 6147 as passed by the House, and the amended version passed by the Senate.

In a reprise of funding for FY2017, the IRS was funded through several continuing resolutions during the first five

months of FY2018. That ended when President Trump signed the Consolidated Appropriations Act, 2018 (P.L. 115-141) on March 23, 2018. The act provided \$196 million more in appropriations for the IRS than the enacted amount for FY2017.

The Trump Administration is requesting \$11.135 billion in appropriations for the IRS in FY2019, or \$296 million less than the enacted amount for FY2018. This reduction reflects an added \$94 million to maintain FY2017 levels of operation, \$13 million in anticipated efficiency savings, \$13 million in added investment in IRS’s information technology (IT) infrastructure, \$317 million in program decreases, and program increases of \$199 million. Foremost among the program decreases are a cut of \$138 million for IRS’s toll-free telephone service for taxpayers and a transfer of \$178 million from the BSM program to OS. Requested funding for program increases would be mostly used to enhance the security of IRS’s information systems.

In addition, the Trump Administration is proposing a program integrity cap adjustment in FY2019 (under §251(b)(2) of the Balanced Budget and Emergency Deficit Control Act of 1985, P.L. 99-177) of \$362 million to pay for “new and continuing” investments in IRS’s enforcement programs aimed at reducing the federal tax gap, which is the difference between taxes paid in full and on time in a tax year and the total amount of taxes owed. Of the proposed cap adjustment, \$205 million would apply to the enforcement account and \$157 million to the OS account. The IRS estimates that these investments, plus others planned through FY2023, would yield a net revenue gain of \$29 billion over 10 years. The cap adjustments would give the IRS additional budget authority under the discretionary nondefense spending caps for FY2019 specified in the Bipartisan Budget Act of 2018 (P.L. 115-123). No cap adjustment is allowed under current law for IRS enforcement activities.

Individual Appropriations Accounts

Taxpayer Services

The Trump Administration FY2019 budget request for the IRS includes \$2.241 billion in appropriations for taxpayer services, or \$266 million less than the enacted amount for FY2018. Of the requested amount, \$8.9 million is designated for the Tax Counseling for the Elderly (TCE) Program, \$12.0 million in matching grants for low-income taxpayer clinics, \$15.0 million for matching grants under the Volunteer Income Tax Assistance (VITA) Program (available through September 30, 2020), and \$206 million for the Taxpayer Advocate Service (TAS).

H.R. 6147 (as passed by the House) gives the IRS \$2.492 billion in appropriations for taxpayer services in FY2019,

or \$251 million more than the budget request. Of that amount, \$8.9 million is designated for the TCE Program, \$12.0 million for matching grants for low-income taxpayer clinics, \$15.0 million for matching grants under the VITA program (available through September 30, 2020), and \$207 million for TAS.

The Senate-passed amendment to H.R. 6147 allocates \$2.507 billion in appropriations for taxpayer services in FY2019, or \$266 million more than the budget request. It too sets aside \$8.9 million for the TCE Program and \$12.0 million for low-income taxpayer clinic matching grants, but it increases funding for VITA program matching grants to \$20 million (available through the end of FY2020). TAS receives \$206 million under the bill.

Enforcement

For FY2019, the Trump Administration is requesting \$4.628 billion for tax law enforcement, or \$132 million less than the amount enacted for FY2018. Of this amount, \$50 million would be available through the end of FY2020, and \$60.3 million is reserved for the Interagency Crime and Drug Enforcement Program. An additional \$205 million would be available for enforcement activities aimed at reducing the federal tax gap as an exemption from the discretionary nondefense spending caps in P.L. 115-123.

The House version of H.R. 6147 appropriates \$4.860 billion for enforcement activities, or \$232 million more than the budget request. The bill includes no endorsement of the Administration's proposed \$205 million cap adjustment

The Senate version of H.R. 6147 also provides \$4.860 billion in appropriations for IRS enforcement activities. Like the House version of H.R. 6147, it contains no endorsement of the Administration's cap adjustment.

Operations Support

The Trump Administration is asking for \$4.313 billion in appropriations for OS in FY2019, or \$679 million more than the enacted amount for FY2018. Of this amount, \$250 million would be available through FY2020 and \$10 million would be available until spent for the acquisition of equipment and the repair, construction, and renovation of facilities. In addition, the budget request calls for another \$157 million in budget authority for OS from an adjustment of the caps on discretionary nondefense spending in FY2019 under P.L. 115-123.

The House version of H.R. 6147 calls for \$3.988 billion in appropriations for OS in FY2019, or \$325 million less than the budget request. Use of these funds is subject to the same conditions specified in the budget request. No cap adjustment is included in the bill.

Under the Senate version of H.R. 6147, OS receives \$3.709 billion in appropriations in FY2019, or \$604 million less than the budget request. The conditions for the use of OS appropriations specified in the budget request and the House version of H.R. 6147 also apply. No cap adjustment is included in the bill.

Business Systems Modernization

The Trump Administration is asking for \$110 million in appropriations for the BSM Program in FY2019, or the same amount that was enacted for FY2018. The funds are available until September 30, 2021.

The House version of H.R. 6147 provides \$200 million in appropriations for the BSM program in FY2019, or \$90 million more than the budget request. These funds are also available through the end of FY2021.

The Senate version of H.R. 6147 appropriates \$110 million for the BSM Program (available through FY2021).

Administrative Provisions

The budget request and the House and Senate versions of H.R. 6147 contain a set of administrative provisions intended to offer the IRS guidance on specific activities. Some of the provisions are more controversial than others. The following provisions are among the more controversial:

- Sections 106 of the House bill and Section 107 of the Senate bill prohibit the IRS from using appropriated funds to “target” U.S. citizens for exercising their First Amendment rights.
- Section 107 of the House bill and Section 108 of the Senate bill bar the IRS from using appropriated funds to “target” specific groups for added scrutiny because of their “ideological beliefs.”
- Section 111 of the House bill and Section 112 of the Senate bill prohibit the IRS from using appropriated funds to develop and implement a return-free or pre-populated filing system.
- Section 112 of the House bill bars the IRS from using appropriated funds to deny a tax exemption for churches engaging in political campaigns, unless (1) the IRS Commissioner has determined that such a denial is appropriate, (2) the Commissioner notifies the House Ways and Means Committee and the Senate Finance Committee within 30 days of his decision, and (3) the denial takes effect 90 or more days after the date of notification.
- Sections 113 of the House and Senate bills provide the IRS with an additional \$77 million in FY2019 to carry out the provisions of (P.L. 115-97).

Sections 125 of both the House and Senate bills bar the Treasury Department/IRS from using appropriated funds to “issue, revise, or finalize” any regulation or ruling or guidance unrelated to a specific taxpayer concerning the standard for determining whether an organization is operated exclusively for the promotion of social welfare under Section 501(c)(4). Instead, the standard used on January 1, 2010, shall apply after the date of enactment of each bill.

Gary Guenther, gguenther@crs.loc.gov, 7-7742

IF10966