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FACT SHEET: Further Cuts Would Eviscerate IRS Funding for Cracking Down on Rich Tax Cheats Right Before 2025 Tax Fight

TOPLINES

- The Inflation Reduction Act (IRA) provided $45.6 billion to the IRS for enforcement, but *almost half*—over $21 billion—has already been formally rescinded by Congress.

- Right now, an *additional $20.2 billion* of that enforcement funding is stuck in limbo for the duration of the current CR—not yet rescinded but not accessible to the agency either. **As a result, $41.8 billion (92%) of the IRS' IRA funding for cracking down on rich tax cheats is currently either rescinded or frozen.**

- If Congress passes additional CRs extending FY24 funding and policies, it must include "anomaly" language requested by the Biden Administration to prevent that $20.2 billion from being frozen again or, ultimately, from being cut from the IRS altogether. Preventing this unintended cut requires a simple technical fix. But Republicans know that blocking this fix would eviscerate IRS' ability to enforce the law for wealthy tax cheats.

- If Congress passes a new FY25 funding law, it won't need to include the anomaly but it will need to protect IRS from any further rescissions and retain the Senate's funding levels for IRS's FY25 base appropriation.

- IRS has only begun staffing up with experts skilled in the complicated tax returns of the ultra-rich, but even in this early phase, there have already been big successes, such as securing more than $1 billion in back taxes owed by millionaires.

- However, the enforcement money intended to last ten years, and allow the agency to hire those experts long-term, won't even last through the end of FY25 unless Democrats block additional cuts.

- Slashing enforcement right before the 2025 tax fight will have far-reaching consequences for the politics, implementation, and even revenue scoring of tax reform.

Democrats made a promise to honest taxpayers that they wouldn't support any further cuts to the IRS. It's time to keep those promises and defend IRS' ability to crack down on rich tax cheats.

- Republicans' current efforts to undermine the IRS' ability to enforce the law won't be their last. Democrats must send a strong message now: no more cuts!

- If IRS' enforcement funds become a piggy bank for spending offsets, Democrats will weaken their own position heading into the 2025 tax fight.

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IRA funding to redesign the agency and reinvigorate U.S. tax collections is working!

- This year, the IRS significantly improved its customer service, cutting phone wait times to 3 minutes (down from 28 minutes).
- The Direct File pilot program is projected to save Americans $11 billion annually between filing fees and time costs.
- And IRS has now collected more than $1 billion from high-wealth taxpayers with past-due taxes and begun auditing personal use of corporate jets by executives.

Gutting IRS' enforcement funding will let wealthy tax cheats dodge their taxes while adding to the deficit.

- The Congressional Budget Office estimates that additional cuts to IRS funding would reduce its total revenue collection by nearly $66 billion dollars over the next decade.
- Every $1 spent auditing *high-income earners* yields more than $22 in revenue.
- Republicans hope to undermine IRS' ability to hold wealthy tax cheats and large corporations accountable for the taxes they owe and to make IRS' ability to modernize and provide quality customer service that much harder.

DEEP DIVE—HOW DID WE GET HERE?

Summer 2022: The Inflation Reduction Act provided $80 billion in mandatory funding to help the IRS modernize, improve customer service, and crack down on wealthy and corporate tax cheats. Of that $80 billion, $45.6 billion was targeted to enforcement, including hiring new personnel to handle the complicated tax returns of major corporations and the ultra-rich.[1]

Summer 2023: The McCarthy-Biden deal to raise the debt limit—enacted via the Fiscal Responsibility Act (FRA)—immediately rescinded $1.4 billion in IRA money from the IRS[2] and imposed new spending caps on discretionary funding.

Additionally, the two sides *informally* agreed to rescind an additional $20.2 billion from the IRS' IRA enforcement money to offset additional spending above the FRA's spending caps. The plan was to cut $10 billion in FY24 and $10.2 billion in FY25.

January 2024: As part of the Schumer-Johnson deal on topline appropriations, the two parties agreed to include the full $20.2 billion of IRS cuts in the FY24 omnibus instead of spreading them out between FY24 and FY25.

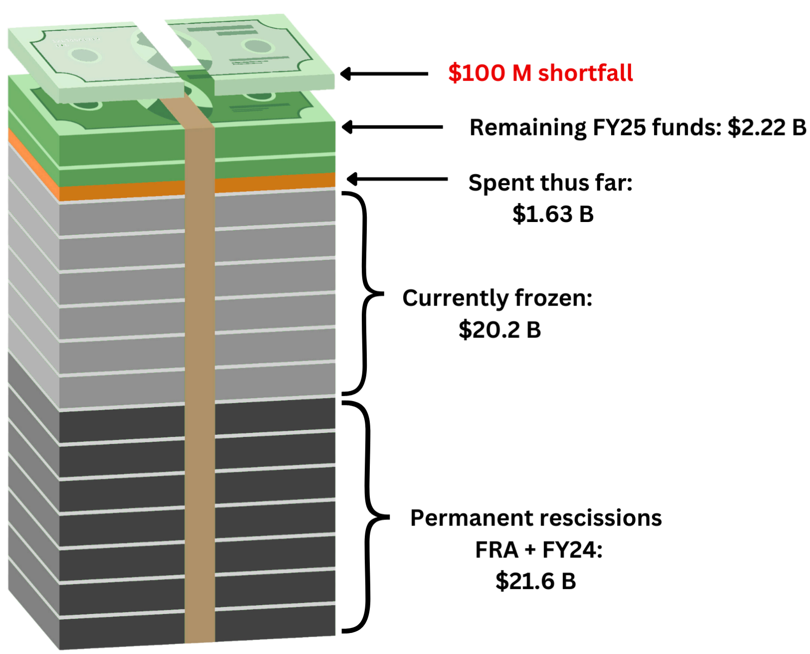
- This created a ~$10.2 billion hole in offsets planned for FY25. Unless Congress repeals the FRA's spending caps or cuts discretionary spending to meet those caps, it will need to find an additional ~$10.2 billion in cuts from *somewhere* when it drafts new funding bills for FY25.

March 2024: After a series of CRs extending FY23 policies and funding levels, Congress passed a full-year FY24 funding law enacting the entire $20.2 billion IRS rescission that Democrats had agreed to.

- This completed the bipartisan deal to cut the IRS.
- Of the $45.6 billion in enforcement money originally included in the IRA, close to half ($21.55 billion) has now been formally rescinded by Congress.[3]

September 2024: Congress passed a CR extending FY24 policies and funding levels

- Because a continuing resolution just extends the previous year's language—unless an explicit exception (aka "anomaly") is included—and because the previous language in this case included the $20.2 billion rescission to IRS funding, the Biden Administration requested an anomaly (technical fix) to prevent the old language from being repeated.[4]
- By not including an anomaly to strike that old language and letting it copy over into the new fiscal year, Congress has frozen an additional $20.2 billion for the duration of the CR.
- *For the time being*, that additional $20.2 billion in enforcement money has not been formally cut by the CR—and doesn't need to be reauthorized—but it *is* in limbo for the duration of the CR, and IRS can't obligate any of it.
- If there's a full-year CR, or multiple short-term CRs adding up to a full year—October 1, 2024 to September 30, 2025—then the funding will be formally cut (and will need to be reauthorized by Congress) unless an anomaly is included along the way to strip out the old FY24 rescission language.



December 2024: If Congress passes another CR, it <u>must</u> include language ("the anomaly") stripping out the rescission.

- The budget crisis is coming faster than Congress may realize:
  - IRS was given $45.6 billion in IRA enforcement funds
  - Congress formally rescinded $21.6 billion of that funding via the FRA and the FY24 omnibus
  - An additional $20.2 billion will remain frozen so long as there is a CR in effect without the anomaly. If the CRs last through the end of FY25 with no anomaly, the money will be formally rescinded.
  - IRS has spent $1.63 billion in enforcement (as of September 30) and is on track to ramp up enforcement hiring (as it was instructed to do by Congress), **leaving it $100 million short by the end of FY25 unless Congress takes action.**[5]

- If IRS needs to transfer additional IRA funds to fill gaps in their base appropriation to ensure a successful tax filing season in April—as they have previously—this cliff could occur even sooner.

As TaxNotes reported, "An additional $20.2 billion in rescissions for fiscal 2025 would cause a **net increase in deficits of $45.6 billion over 10 years, according to the Congressional Budget Office**, because of a reduction in enforcement actions – a $65.8 billion drop in revenues collected minus the $20.2 billion in cuts."

If Congress does not pass another CR and instead passes a new full-year appropriations package for FY25, no anomaly is needed (they'd be writing a new law, not just extending the old one).

But in that case, Congress will have to grapple with the FRA's spending caps and the hole created by cutting $20.2 billion from the IRS all at once in FY24 instead of holding back $10.2 billion in cuts for FY25 as originally planned.

Congress has options to make the topline spending work, but no matter what, **Democrats must stick to the promises they made in January that they would not support any additional cuts to the IRS.**

Furthermore, Congress must retain the Senate's funding levels for IRS's FY25 base appropriation. The Senate level provides flat funding in nominal dollars—which, after inflation, still equals a cut in real dollars. Failing to adequately fund IRS through base appropriations is what created the need for the IRA investment in the first place.

Finally, if Congress cuts IRS enforcement, JCT may take IRS' reduced capacity into account when calculating how much any given revenue-raiser will raise. **Caving to GOP demands on the IRS now may make offsetting the cost of tax cuts for those under $400,000 that much harder next year.**

RELEVANT LEGISLATIVE TEXT AND CITATIONS

1) Inflation Reduction Act, PL117-169, Section 10301(1)(A)(ii) ENFORCEMENT.—For necessary expenses for tax enforcement activities of the Internal Revenue Service to determine and collect owed taxes, to provide legal and litigation support, to conduct criminal investigations (including investigative technology), to provide digital asset monitoring and compliance activities, to enforce criminal statutes related to violations of internal revenue laws and other financial crimes, to purchase and hire passenger motor vehicles (31 U.S 1343(b)), and to provide other services as authorized by 5 U.S.C. 3109, at such rates as may be determined by the Commissioner, $45,637,400,000, to remain available until September 30, 2031: Provided, That these amounts shall be in addition to amounts otherwise available for such purposes.

2) Fiscal Responsibility Act, PL118-5 SEC. 251. RESCISSION OF CERTAIN BALANCES MADE AVAILABLE TO THE INTERNAL REVENUE SERVICE. Of the unobligated balances of amounts appropriated or otherwise made available for activities of the Internal Revenue Service by paragraphs (1)(A)(ii), (1)(A)(iii), (1)(B), (2), (3), (4), and (5) of section 10301 of Public Law 117–169 (commonly known as the ''Inflation Reduction Act of 2022'') as of the date of the enactment of this Act, $1,389,525,000 are hereby rescinded. [IRS has confirmed that all of the FRA rescissions were drawn from enforcement.]

3) Further Consolidated Appropriations Act, 2024, PL 118-47
TITLE VI GENERAL PROVISIONS--THIS ACT (including rescissions of funds)
Sec. 640. Of the unobligated balances of amounts made available under section 10301(1)(A)(ii) of the Act to provide for reconciliation pursuant to title II of S. Con. Res.14 (Public Law 117-169, commonly referred to as the ``Inflation Reduction Act''), $10,200,000,000 are hereby rescinded. …

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(rescission) TITLE V GENERAL PROVISIONS (transfer of funds)
Sec. 530. Of the unobligated balances of amounts made available in section 10301(1)(A)(ii) of Public Law 117-169, $10,000,000,000 are hereby rescinded.

4) An example of an anomaly eliminating an FY24 rescission that was included in the final short-term CR passed this month: "(5) The Financial Services and General Government Appropriations Act, 2024 (division B of Public 18 Law 118–47), except sections 637 and 638."

5) Numbers from IRS re FY24 fourth quarter spending data and from the spending plan published in the FY24 Strategic Operating Plan