

March 15, 2000

The Honorable Ben Nighthorse Campbell  
Chairman  
Senate Appropriations Subcommittee on  
Treasury and General Government  
380 Russell Senate Office Building  
Washington, DC 20510

Need to Ensure Adequate Funding for Internal Revenue Service

Dear Mr. Chairman:

I am writing on behalf of the American Bar Association to respectfully request your assistance in ensuring that the Internal Revenue Service receives adequate funding for FY 2001. We are pleased that the Administration has proposed a significant increase in the IRS budget and urge you and your committee to support that increase.

Nearly 20,000 of the American Bar Association's members are tax lawyers who deal regularly with the IRS. We do not claim expertise in determining the proper allocation of scarce federal budget resources or in managing the budget of the IRS. However, we do see how the agency functions in the real world and that experience prompts us to call our concerns to your attention.

The IRS is undergoing a complete restructuring under Commissioner Rossotti. At the same time, it is struggling to modernize its antiquated computer system, and striving to comply with new duties and restrictions imposed on it by the IRS Restructuring and Reform Act of 1998 ("RRA"). The American Bar Association considers all of these tasks to be necessary in order for the IRS to serve taxpayers properly in the 21<sup>st</sup> Century. But we also recognize that the substantial undertaking represented by these tasks cannot be accomplished without adequate funding of the IRS.

The IRS has requested resources totaling \$8.84 billion for FY 2001, an increase of \$769 million (9.5%) over FY 2000. Of this increase, approximately \$527 million would be devoted to maintaining existing services and operations. The balance would be devoted to improving the IRS, allowing it to perform its functions as a modern, client service organization.

Commissioner Rossotti has correctly identified the need for the IRS to be more customer-oriented, a goal broadly endorsed by Congress. To accomplish this, the IRS is reorganizing itself based on customer segments instead of geography and function. This reorganization requires that individuals be shifted to meet these new alignments, the planning and implementation of which will require substantial new resources. In addition, the IRS is still working to comply with the additional requirements imposed on it by RRA.

For these purposes, the IRS has requested an additional \$42 million in FY 2001. Without these additional appropriations, it is questionable whether the IRS will be able to improve taxpayer service in the manner envisioned.

The IRS has also requested an additional \$119 million in FY 2001 for modernization of its computer system. The sorry state of the IRS IT system has been well documented. The current IRS computer systems are extremely old and primitive. Unfortunately, the IRS was forced to devote virtually all of its IT resources in recent years to ensure that its system was Y2K-compliant. Now that Y2K has past (apparently without effect), the IRS can once again devote itself to systems modernization. Modernization, properly executed, is critical in order to avoid breakdowns and to permit enhanced processing, collections, and taxpayer service. Moreover, failure to modernize its computer systems would cause substantial disruption to our tax administration system and undoubtedly would increase taxpayer frustration with the IRS, in particular, and with the Government as a whole.

Finally, as part of its effort to maintain current levels of customer service, the IRS has proposed a new initiative that will enable it to stop what appears to be a steady decline in enforcement activities and a loss of personnel capable of carrying out such functions. This new initiative – called STABLE – would ensure that compliance activities, already drastically reduced, would not be allowed to decline further. The ABA recognizes that increased compliance is never a popular topic. Nevertheless, its importance in a voluntary system such as ours cannot be minimized. Studies demonstrate that a visible and effective enforcement capability is essential to the large-scale voluntary compliance upon which our tax system is based. We compliment the IRS on this proposal and encourage Congress to appropriate the funds the IRS has requested.

We believe that adequate funding of the IRS in FY 2001 is critical to its ability to fulfill its tasks and to meet legitimate taxpayer needs in the forthcoming century. We would be delighted to provide any information or assistance that would be helpful to you. Thank you for your help with this significant issue.

Identical letters have been sent to Chairman Jim Kolbe and Ranking Member Steny H. Hoyer.

Very truly yours,

Paul J. Sax  
Chair, Section of Taxation

cc: Ted Stevens, Chairman, Senate Appropriations Committee  
Robert C. Byrd, Ranking Member, Senate Appropriations Committee  
Byron L. Dorgan, Ranking Member, Senate Appropriations Subcommittee on  
Treasury and General  
Government  
Charles O. Rossotti, Commissioner, Internal Revenue  
Pat Raymond, Majority Clerk, Senate Appropriations Subcommittee on Treasury and  
General Government  
Barbara A. Retzlaff, Minority Clerk, Senate Appropriations Subcommittee on Treasury and  
General  
Government  
Steve Cortese, Majority Staff Director, Senate Appropriations Committee  
James English, Minority Staff Director, Senate Appropriations Committee