Follow-up on Funding for the Internal Revenue Service

Introduction: In response to H.R. 5016, which proposes to decrease funding to the Internal Revenue Service to its lowest level in a decade, the Section reiterated its support of adequate funding for the Service. This was initially expressed in the Section’s February 10, 2014, letter to the House and Senate Appropriations Subcommittees on Financial Services and General Government. While the Section appreciates the tremendous difficulty Congress faces, such a dramatic reduction in funding impairs the Service’s ability to maintain sufficient personnel that is properly trained. This will inevitably harm taxpayers and inhibit the Service’s ability to administer tax laws and collect tax revenues. As with all of its government submissions, the Section’s July 21, 2014, follow-up letter regarding Service funding in light of H.R. 5016 is available on the website at

http://www.americanbar.org/groups/taxation/policy.html.

--Jesse Tsai, Staff Counsel

Dear Chairmen Udall and Crenshaw, and Ranking Members Johanns and Serrano:

In light of the U.S. House of Representatives’ passage of H.R. 5016, The Financial Services and General Government Appropriations Act, which would fund the Internal Revenue Service (the “Service”) at significantly reduced levels compared to the government’s fiscal year 2014, I respectfully reiterate, on behalf of the American Bar Association, our support for ensuring that the Service receives adequate funding for fiscal year 2015. As indicated in our letter to you on February 10 of this year, the American Bar Association has consistently supported adequate funding for the Service to carry out its missions of taxpayer service and enforcement of federal tax laws.

We recognize the intense challenges that the Congress faces regarding the federal budget. While we appreciate the difficult task at hand, we would like to reiterate the importance of providing the Service with sufficient resources to perform its critical functions of providing taxpayer service and collecting taxes properly due. The proposed funding reduction in H.R. 5016 would reduce the Service’s funding to its lowest level in ten years. While the Service has made great strides in reducing costs, such as increasing automating systems, we believe that reduced funding will negatively impact the Service’s ability to serve taxpayers and enforce the tax laws that Congress enacts.

We worry that by not adequately funding the Service, we are at risk that the following consequences might occur:

• A decrease in federal revenue. Every dollar devoted to tax enforcement yields a substantial increase in tax collections, and reducing funding in the Service’s tax enforcement efforts results in significantly lower tax collections.¹ Moreover, failure to collect taxes properly due undermines confidence in our voluntary compliance system, especially when honest and diligent taxpayers believe that other taxpayers are not paying their proper share.

• A lack of necessary Service personnel. In order to perform the Service’s critical functions, in the face of complex and constantly changing tax laws, a sufficient staff must be recruited and properly trained to serve taxpayers fairly.

The Discussion Draft also requested comment on whether to update the “Taxpayer Bill of Rights,” which was last addressed by Congress as part of the Internal Revenue Service Restructuring and Reform Act of 1998. We note that the National Taxpayer Advocate has regularly supported a number of improvements in this area, and we agree that it is important for Congress to periodically review the procedural protections provided to taxpayers in the Internal Revenue Code and to update those protections to remedy situations that fall through the cracks. Importantly, however, the Section believes that Congress should take care to ensure that efforts to address taxpayer rights do not become an opportunity to demonize the Service and its more than 90,000 dedicated employees. While there clearly are areas where the Service can do more to help taxpayers, in our experience the vast majority of the Service’s employees do their utmost to serve taxpayers fairly.

¹ National Taxpayer Advocate, 2013 Annual report to Congress – Executive Summary, p. 21 (December 31, 2013).
trained. With many senior Service personnel opting for retirement, and funding limits preventing many vacancies from being filled, we are concerned that the Service will not have sufficient personnel to adequately address taxpayer needs. Additionally, the Service’s training budget has already been reduced by 85% since fiscal year 2009, and we are concerned about the adverse effects this reduction may have on tax administration.

- A negative effect on the Service’s ability to administer the laws Congress enacts. The Service is required by law to implement the Foreign Account Tax Compliance Act (“FATCA”) and the Affordable Care Act (“ACA”). While the Service faithfully tries to carry out its responsibilities, and assist taxpayers in complying with their legal obligations under FATCA and ACA, the reductions may compromise the Service’s ability to carry out these duties.

- A decrease in the quality of taxpayer service. Last year, the Service was able to answer only 61% of the calls it received from taxpayers. Additionally, the Service had approximately 690,000 cases of identity theft open. The ability of taxpayers to meet with the Office of Appeals to resolve cases administratively has also been negatively affected by decreased funding. We fear that because most of the Service’s budget is devoted to personnel costs, the reductions necessarily reduce the staff available to deal with these issues.

- Elimination of volunteer service programs that aid elderly and low income taxpayers. Last year, nearly 92,000 volunteers assisted with 3.3 million returns through volunteer programs administered by the Service. If the Service does not have the resources to support these programs, many elderly and low income taxpayers will be unable to access important tax services.

While we appreciate the difficult challenge that the Congress faces, we nonetheless urge Congress to provide the Service the necessary funding so that it can fulfill its core functions of providing taxpayer service and collecting taxes properly due. We believe that adequate funding to the Service is vital because taxpayers will inevitably suffer without a fully functioning Service. We do not believe that the Service can appropriately fulfill its obligations without adequate funding.

Thank you for your consideration.

Sincerely,

Michael Hirschfeld
Chair, Section of Taxation

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1 Written Statement of Nina E. Olson, National Taxpayer Advocate, pg. 11, Hearing on Internal Revenue Service FY 2015 Budget Request Before the Comm. on Appropriations, Subcomm. on Financial Services and General Government, U.S. Senate, 113th Cong. (Apr. 30, 2014).
