February 5, 2014

The Honorable Tom Udall
Chairman
United States Senate
Committee on Appropriations
Subcommittee on Financial Services
and General Government
110 Hart Senate Office Bldg.
Washington, DC 20510

The Honorable Ander Crenshaw
Chairman
United States House of Representatives
Committee on Appropriations
Subcommittee on Financial Services
and General Government
440 Cannon House Office Bldg.
Washington, DC 20515

On behalf of the American Bar Association, I respectfully request your assistance in ensuring that the Internal Revenue Service (the “Service”) receives adequate funding for fiscal year 2015. 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. The American Bar Association has nearly 400,000 members, and over 22,000 of such members belong to the Section of Taxation.

We recognize the intense challenges that the Congress faces regarding the federal budget. In light of those challenges, it is essential that the Service be provided the resources it needs to perform its critical functions of providing taxpayer service and collecting taxes properly due. While the Service has made great strides over the past decade in terms of automating systems and reducing certain costs of its operations, we are gravely concerned that the recent trend of funding reductions for the Service is negatively impacting its ability to properly serve taxpayers and enforce the tax laws that Congress enacts.
As you know, the effects of sequestration during Fiscal Year 2013 were felt throughout government. Furloughs and other resource limitations negatively affected not only Service employees, but also the taxpayers and representatives with whom they interact on a daily basis. Many senior Service personnel are eligible for retirement and are choosing to leave the agency, and funding limits have precluded the Service from filling many vacant positions. Constraints on training and travel are further hampering the development of new leadership. We have seen a marked decline in the Service’s ability to provide timely telephone assistance and answer taxpayer correspondence. The Service has acknowledged that it was only able to answer 61% of the calls it received last year, and has set a goal of improving that percentage to 70% this year – which still would leave 3 in 10 calls unanswered. Funding reductions have also negatively impacted the ability of taxpayers to meet with the Office of Appeals to seek to resolve cases administratively, and the Office of Chief Counsel has had to curtail certain aspects of its advanced ruling program. If the Service does not soon receive increased funding, we fear that more and more important functions will be affected, and the continuing and future investments that are necessary to recruit and train the best employees, build modern infrastructure, and effectively administer the tax laws will not be made.

These are serious issues for taxpayers and their representatives. Although much has been done to make necessary information and services available on the IRS website, many of the unanswered calls and correspondence are from taxpayers seeking additional information to prepare and file their tax returns, or trying to respond to Service inquiries and notices, including levies and other collection matters. Furthermore, because most of the Service’s budget is devoted to personnel costs, budget reductions necessarily reduce staffing available to deal with these and other issues, such as helping taxpayers who fall victim to identify theft.

At the same time that the Service is struggling to meet taxpayer needs, it also is struggling in maintaining enforcement activities to close the tax gap, which has been estimated at nearly $400 billion per year. Given that every dollar devoted to tax enforcement yields about $255 in tax collections, reductions in funding for the Service’s tax enforcement efforts result in significantly lower tax collections.¹ Moreover, failure to collect taxes properly due increases cynicism regarding our voluntary compliance system, and honest and diligent taxpayers end up paying more to subsidize noncompliance by others.

¹ National Taxpayer Advocate, 2013 Annual Report to Congress – Executive Summary, p. 21 (December 31, 2013).
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Funding levels are now significantly below the levels that many believe are necessary for the Service to successfully carry out its traditional responsibilities, not to mention the new roles that the agency is required by law to perform in the implementation of the Foreign Account Tax Compliance Act (“FATCA”) and the Affordable Care Act (“ACA”). The Service is required to administer the laws that Congress enacts, and the Service must assist taxpayers in complying with their legal obligations under FATCA and ACA, and enforce those legal obligations when necessary. The Service’s ability to carry out these duties is being compromised by the reductions in IRS funding over the past several years. Given that FATCA was intended to help combat tax evasion, it is crucial that the Service be provided the necessary resources to effectively implement this legislation so that it will help reduce the tax gap.

We believe that adequate funding for the Service is vital. We urge you and your Committees to restore recent funding reductions so that the Service can fulfill its dual functions of providing taxpayer service and collecting taxes properly due. And because appropriate increases in the Service’s budget can result in increased overall revenue, we encourage Congress to consider whether the legislative budgeting process can be adjusted to take into account the Service’s unique role. We would be pleased to provide any assistance that you or your staff would find helpful in considering this matter.

Thank you for your consideration.

Sincerely,

Michael Hirschfeld
Chair, Section of Taxation

cc: Hon. Barbara A. Mikulski, Chair, Senate Appropriations Committee
Hon. Richard C. Shelby, Vice Chair, Senate Appropriations Committee
Hon. Harold Rogers, Chair, House Appropriations Committee
Hon. Nita M. Lowey, Ranking Member, House Appropriations Committee
Hon. Jacob J. Lew, Secretary, Department of the Treasury
Hon. John Koskinen, Commissioner of Internal Revenue
Hon. Mark J. Mazur, Assistant Secretary (Tax Policy), Department of the Treasury
Hon. William J. Wilkins, Chief Counsel, Internal Revenue Service
Ms. Nina E. Olson, National Taxpayer Advocate, Internal Revenue Service
Mr. Paul Cherecwich, Jr., Chair, Internal Revenue Service Oversight Board