Re: Fiscal Year 2017 Funding for the Internal Revenue Service

Dear Chairmen Boozman and Crenshaw, and Ranking Members Coons and Serrano:

I am writing on behalf of the American Bar Association to express strong support for providing the Internal Revenue Service (the “Service”) with appropriate and adequate funding for fiscal year 2017 and subsequent years. Such funding is vital for the Service to properly carry out its critical missions of taxpayer service and enforcement of federal tax laws. As evidenced by the series of letters that we have sent to Congress over the past few years, we have grown increasingly concerned that the budgetary constraints imposed upon the Service are eroding its capacity to accomplish these missions. The natural consequence of this capacity erosion is a gradual loss of faith by the American public in the Service and in our voluntary tax compliance system generally, which could cause significant harm to our federal government’s ability to fund itself.

We recognize the intense budgetary pressures that face Congress and our federal government in general. Nonetheless, providing appropriate funding to the Service is one of the few governmental expenditures that provides both an immediate monetary return – each dollar spent on enforcement produces several dollars of additional tax collections – and a long-term benefit to the capacity and credibility of our tax system. Accordingly, we believe that the case for providing increased and adequate funding to the Service is compelling.
Hon. John Boozman  
Hon. Ander Crenshaw  
Hon. Christopher A. Coons  
Hon. José E. Serrano  
March 17, 2016

While the Service has made significant headway in automating its systems and otherwise reducing costs, much remains to be done to assure that the Service can continue to properly serve taxpayers and enforce the tax laws that Congress enacts. The $290 million funding increase for fiscal year 2016 was a step in the right direction. We applaud Congress for taking this step, but the Service’s budget is still approximately $1 billion below its fiscal year 2010 level, which translates into a reduction of about 17% on an inflation-adjusted basis. Consequently, we believe that further budget increases are needed.

We are concerned that a failure to provide increased funding to the Service could result in the following adverse consequences:

- **Less tax revenue.** As previously stated, every dollar devoted to enforcement produces several dollars of increased tax collections. Perhaps more importantly, failure to collect taxes properly due undermines public confidence in our voluntary compliance system by causing honest and diligent taxpayers to believe that other taxpayers are not paying their proper share. At some point, this erosion in confidence could become irreversible.

- **Reduced quality of taxpayer service.** During the last few years, when budgetary pressures have been unusually intense, there has been a clear reduction in the quality of taxpayer service. For example, the Service received over 100 million phone calls last year, but was able to answer only 38% of those calls. In addition, the Service’s inventory of identity theft cases has grown to approximately 600,000. Moreover, the ability of taxpayers to meet with Service personnel to resolve disputes administratively has also been negatively affected. While other factors have contributed to some of these problems, the common denominator is a shortage of trained Service personnel resulting from inadequate funding.

- **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. With many senior Service personnel opting for retirement, and funding pressures preventing many vacancies from being filled and limiting training resources, we are concerned that the Service does not have sufficient personnel to provide appropriate taxpayer service and to properly administer the tax system.

- **Insufficient modernization of systems and technology.** The Service has made some headway in modernizing its systems and technology, but much remains to be done. We recognize that there has been recent controversy regarding the amount of emphasis that the Service places on internet and web based interfaces with taxpayers versus personal contact through phone, walk-in centers, and other means. Nonetheless, we believe that there is general agreement that there will be an evolution in service delivery over time towards internet and web

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based systems. In addition, it seems indisputable that improved cybersecurity and fraud detection are vital to the Service’s mission and that increased systems efficiency is important to reduce costs over time. All of these developments and objectives will require substantial investments in new and improved technology. Failure to provide adequate funding for these initiatives will have a long-term adverse impact on the Service and the tax system.

- **A negative effect on the Service’s ability to administer the laws Congress enacts.** The Service has the obligation to implement the tax laws enacted by Congress. These new laws often are complex and require the issuance of substantial amounts of regulatory guidance. Recent examples include the Foreign Account Tax Compliance Act and the Affordable Care Act. While the Service faithfully tries to carry out its responsibilities, and to assist taxpayers in complying with their legal obligations under new laws, inadequate funding compromises the Service’s ability to carry out these duties.

- **Elimination of programs that aid elderly and low income taxpayers.** Last year, over 90,000 volunteers assisted with 3.7 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 challenges that the Congress faces, we nonetheless urge Congress to provide the Service appropriate and adequate funding so that it can fulfill its core functions of providing taxpayer service and collecting taxes properly due. We believe that failure to do so will harm taxpayers and erode confidence in our voluntary compliance tax system. We worry that, at some point in the not too distant future, the damage could become irreversible.

Thank you for your consideration.

Sincerely,

George C. Howell, III
Chair, Section of Taxation

cc: Hon. Thad Cochran, Chairman, Senate Appropriations Committee
Hon. Barbara A. Mikulski, Ranking Member, Senate Appropriations Committee
Hon. Harold Rogers, Chairman, House Appropriations Committee
Hon. Nita M. Lowey, Ranking Member, House Appropriations Committee
Hon. Orrin G. Hatch, Chairman, Senate Finance Committee
Hon. Ron Wyden, Ranking Member, Senate Finance Committee

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7 Chairman John Boozman, Opening Statement, Subcommittee on Financial Services and General Government, U.S. Senate Committee on Appropriations, Hearing to Review the FY 2017 Budget Request & Budget Justification for the U.S. Department of Treasury (Mar. 8, 2016).

Hon. Kevin Brady, Chairman, House Ways and Means Committee
Hon. Sander M. Levin, Ranking Member, House Ways and Means Committee
Hon. Jacob J. Lew, Secretary, Department of the Treasury
Hon. Mark J. Mazur, Assistant Secretary (Tax Policy), Department of the Treasury
Hon. John Koskinen, Commissioner, Internal Revenue Service
Hon. William J. Wilkins, Chief Counsel, Internal Revenue Service
Ms. Nina E. Olson, National Taxpayer Advocate, Internal Revenue Service