

Democrats' \$80 billion wager: A bigger IRS will be a better IRS

Modernizing the tax collector is one of the keys to the party's climate change and health care bill, but the agency has many problems after years of underfunding

By [Jacob Bogage](#)

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A newly empowered Internal Revenue Service is one of the keys to the sweeping climate, health care and tax bill Senate Democrats hope to pass this week — with billions of dollars in new funds for the agency so it can collect money for the federal government by going after higher-income tax cheats.

The bill, known as the Inflation Reduction Act, would put \$80 billion toward beefing up the IRS, in line with liberals' long-term goals to strengthen tax collection and enforcement on corporations and high-income earners, while relieving low-income taxpayers of cumbersome and frightening audits. Some of the additional revenue would go to pay for the largest-ever U.S. investment in clean energy technology.

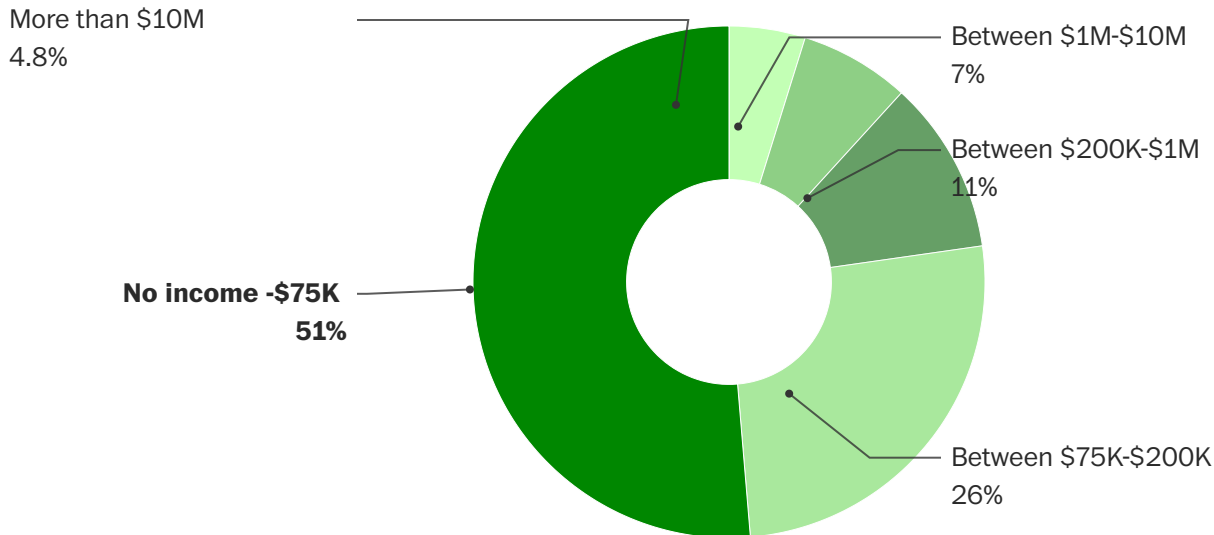
The idea is that the government could bring in more money by examining corporate and high-income returns than it does by pursuing lower- or middle-income taxpayers who make mistakes on their returns or underpay their taxes by small amounts. The IRS in recent years has grown more dependent on those types of audits because they are relatively inexpensive: They're automated, and they preserve the agency's limited personnel resources. But they also mostly fall on taxpayers who can't afford to fight back by spending hours on the phone with the tax agency or hiring lawyers.

The result is that the IRS's prolific enforcement capabilities — which bring in on average better than \$10 in revenue for every \$1 spent pursuing audits — are often trained on the most economically vulnerable taxpayers.

More than half of the agency's audits in 2021 were directed at taxpayers with incomes less than \$75,000, according to IRS data. More than 4 in 10 of its audits targeted recipients of the earned income tax credit, one of the country's main anti-poverty measures.

IRS exams by income range

More than half of the IRS's exams in 2021 were of taxpayers with incomes less than \$75,000.



Numbers may not add to 100 percent due to rounding

Source: IRS

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Congress and the White House, when led by Republicans, have starved the IRS of resources for so long, experts say, that even with an influx of \$80 billion in new funding, the agency's ability to transform itself is far from assured.

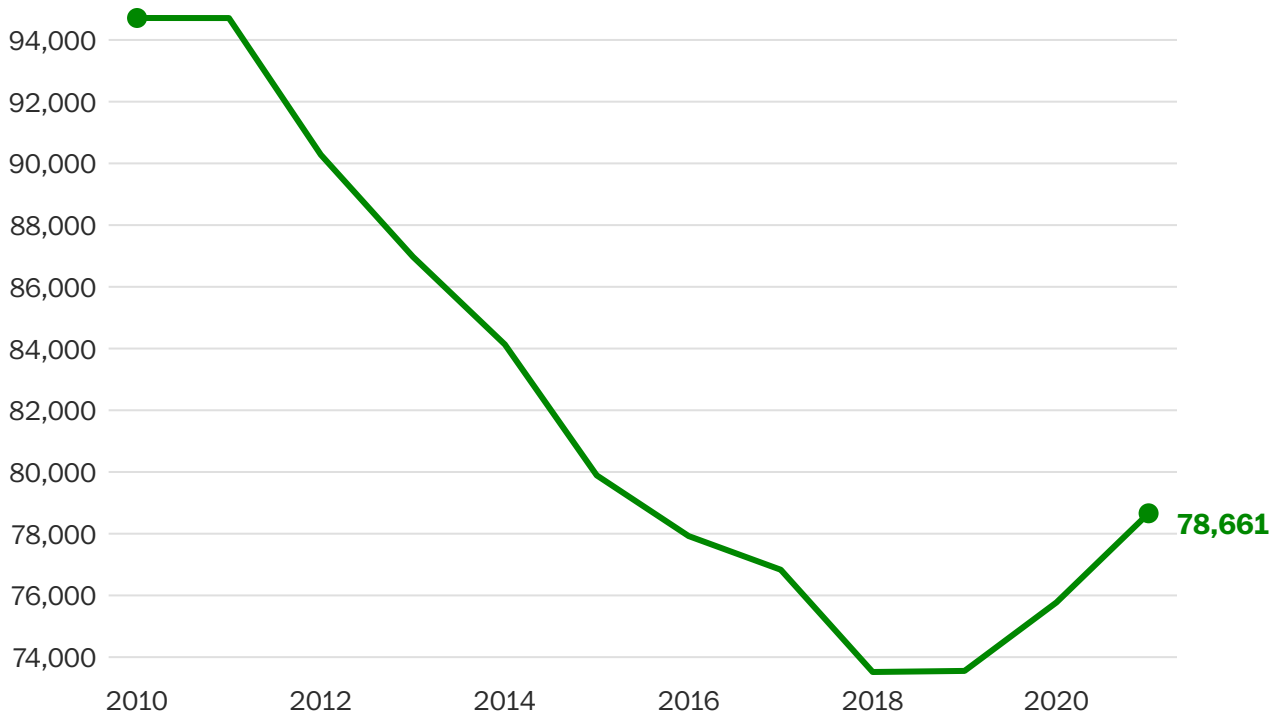
Some of its main computers still run on programming language that dates to the 1960s, called COBOL, the IRS has repeatedly told policymakers. The program is so old that college computer science courses rarely teach it anymore, forcing the IRS to spend heavily on training new hires in antiquated systems.

The IRS has 60 discrete case management systems that do not communicate with one another.

Its staffing levels have dropped by 17 percent since 2010, including a 30 percent decline in enforcement employees, because its budget has flatlined: Adjusted for inflation, its annual appropriation from Congress is down 12 percent over the same span, at \$12.6 billion this year.

IRS full-time employees

The number of IRS full-time employees by year



Source: IRS

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“Part of this is not expecting miraculous rates of return. It’s about stopping the decline,” said Douglas Holtz-Eakin, president of the conservative think tank American Action Forum and a former director of the Congressional Budget Office.

Republican lawmakers have bashed the legislation — which would be a signature achievement of President Biden’s first term — by claiming that a reinvigorated IRS would use its new resources to go after middle-class and poor Americans.

Speaking at a news conference Wednesday, Sen. John Barrasso (R-Wyo.), the head of the Senate Republican Conference, said the proposed spending would “put the IRS on steroids” and in total amounted to about “a million per IRS agent.”

“You don’t need that many IRS agents to go after a few people they say are very, very rich,” Barrasso said, adding that it would hit “families, farmers and the small businesses of Americans, that’s who’s going to bear the burden of this legislation.”

“This is an agency that only succeeded in answering about one out of every 50 phone calls during the 2021 tax season,” Sen. John Thune (R-S.D.) said on the Senate floor Tuesday. “Yet 4 percent of the \$80 billion is going to taxpayer services; 57 percent goes to enforcement, so that the IRS can spend more time harassing taxpayers around this country.”

But experts say that’s a condition brought about largely by GOP policies, which drove the IRS into more audits of poorer taxpayers by depriving the agency of the resources it would have taken to go after wealthier targets who shelter potentially much higher sums.

IRS Commissioner Charles Rettig wrote to lawmakers on Thursday that his agency was committed to upping enforcement “in areas of challenge for the agency — large corporate and global high-net-worth taxpayers.” He added, “These resources are absolutely not about increasing audit scrutiny on small businesses or middle-income Americans.”

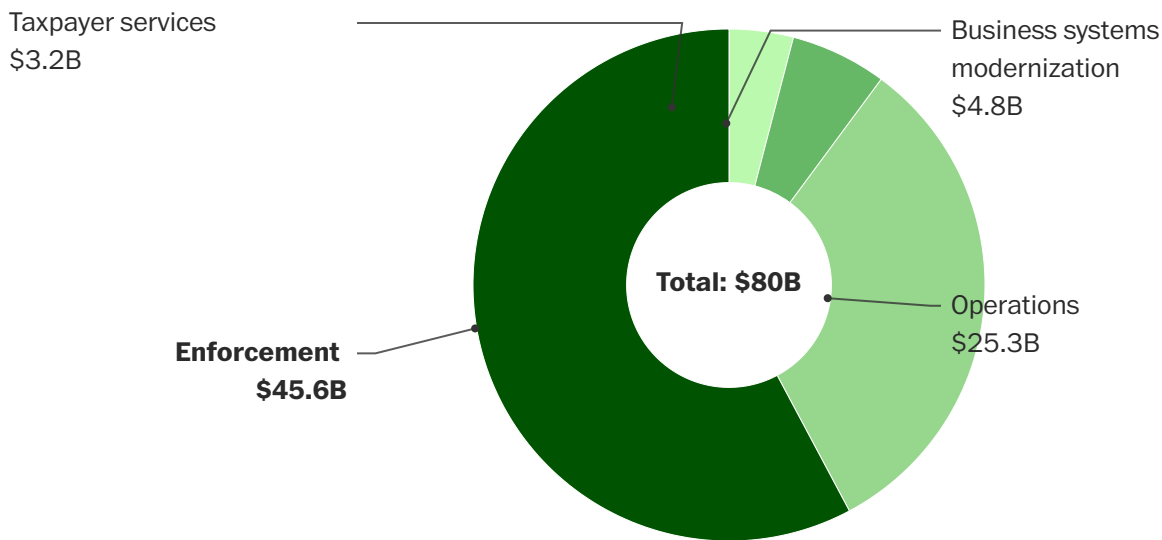
Rettig was appointed by President Donald Trump in 2018 after a career as a tax attorney in Beverly Hills, Calif. His term expires in November, and the Biden administration has been exploring other possible candidates for the role, people familiar with the matter told The Washington Post last month, speaking on the condition of anonymity to discuss private talks.

Without question, the proposed funding will help the IRS collect more revenue. An analysis conducted by the Congressional Budget Office, the legislature’s nonpartisan bookkeeper, found the IRS provisions would knock \$203 billion off the federal deficit, far more than what Democrats expected when they introduced the bill.

Of the \$80 billion total allotment to the tax agency, \$45.6 billion will go to enforcement, marking a projected return-on-investment of \$4.50 in revenue for every dollar spent on enforcement.

IRS spending in the Inflation Reduction Act

The Inflation Reduction Act allocates \$80 billion to the Internal Revenue Service, with just more than half of the funding going to increased tax enforcement.



Numbers may not add to \$80 billion due to rounding

Source: Inflation Reduction Act

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Experts say that figure — which is much lower than what the IRS typically brings in — has two potential explanations.

The first is that it could simply be a conservative estimate; with resources to hire hundreds, if not thousands, of employees, the agency could significantly exceed its revenue projections by both pursuing more tax cheats and by improving taxpayer services to make it easier for Americans to voluntarily comply with the tax code.

“If you are able to bring on a cadre of people who are really thinking forward ... if they’re able to bring on the technology that allows them to bring on some of the data that they already have, that would have a compliance effect and help them going forward,” said Nina Olson, who served as national taxpayer advocate, the IRS’s internal consumer rights watchdog, from 2001 to 2019. “That would help, and I hope that’s what they’re planning to do.”

The second explanation, experts say, is that cracking down on higher-income taxpayers comes with diminishing returns — even if the amount of money involved is potentially far larger. Rich people who file complex returns have access to accountants and lawyers who can fight the IRS’s enforcement mechanisms, or at least draw the process out over years.

Even when the IRS is able to collect from those types of taxpayers, it will have expended lots of resources in the process.

“That’s not an effective place to go raise revenue,” Holtz-Eakin said, even if having an enforcement presence among the wealthy is important to maintain fairness.

Tony Romm contributed to this report.