

## Cutting IRS Funding Makes It Easier for the Wealthy to Cheat on Their Taxes and Increases the Budget Deficit

The Inflation Reduction Act (IRA) provided the Internal Revenue Service (IRS) with funding to help the agency modernize tax collection and go after wealthy tax cheats. Already, the IRS has improved taxpayer customer service and increased tax enforcement against wealthy individuals and corporations, recouping \$160 million in 2023 alone. Recent research shows that focusing tax enforcement on the wealthiest individuals yields substantial revenue, with as much as **\$12 in returns for every \$1 dollar spent** on audits of the wealthiest taxpayers. Additionally, the Congressional Budget Office has routinely found that cutting the IRS budget would actually *increase* the deficit in the long run.

### Eliminating IRS funding would increase the deficit

- Maintaining funding for the IRS ensures that the federal government will bring in more tax revenue that people already owe, reducing the federal deficit.
- Conversely, repurposing any dollar amount of IRS funding would decrease revenues by even more as each dollar spent on tax enforcement generates at least twofold returns.
- Despite quantifiable successes since the passage of the Inflation Reduction Act, Republicans have made several [efforts](#) to repurpose or rescind IRS funding. Each time, [CBO has found that cutting](#) IRS funding would increase the deficit.

### Additional tax enforcement is focused on wealthy individuals and corporations

- Since receiving the IRA funding, the IRS has been [focusing](#) additional enforcement on high-income individuals, large corporations, and [complex partnerships](#). Prior to the IRA's passage, audit rates for these groups had fallen over time due to budget cuts.
- The IRS's enforcement actions have already yielded notable dividends. In July, the IRS [announced](#) that it had closed about 175 delinquent tax cases against millionaires and recovered \$38 million in unpaid taxes.
- The IRS subsequently [announced](#) that it would contact an additional 1,600 taxpayers who owed hundreds of millions of dollars in taxes. As of October 2023, the IRS has already [collected](#) \$122 million from 100 of these cases. This enforcement action is focused on taxpayers earning more than \$1 million dollars annually and with more than \$250,000 in outstanding tax debt.
- The IRS will also [open](#) examinations of 75 of the largest partnerships in the United States.

### Recent evidence shows that auditing the wealthy yields substantial revenue, with each additional dollar spent on auditing the wealthiest 10% yielding up to \$12 in returns

- IRS enforcement yields additional revenue from both audits and future deterrence, with one recent paper [showing](#) that the highest returns come from the wealthiest individuals. On average, each dollar spent on audits yields just over \$2 in revenue. But for the

wealthiest 0.1%, audits produced nearly triple the return, with each dollar yielding over \$6 in revenue.

- The authors also found that audits produce even greater returns over the long run because after taxpayers are audited, they voluntarily start [paying](#) more of what they owe in future years. This increased revenue is three times as large as the upfront revenue collected directly by the audit. When factoring in future deterrence, each dollar spent on audits yields \$12 in returns for individuals between the 90<sup>th</sup> and 99<sup>th</sup> percentiles.
- All told, the top 10% of taxpayers [account](#) for more than half of all underreported income. Although audits of wealthy individuals cost more on average because their returns are generally more complex, this research suggests that the greater returns make them well worth the cost.

### **The IRS has also made important taxpayer service upgrades, including launching a direct file pilot**

- The IRS has also focused on improving customer service with funding provided by the Inflation Reduction Act. During the 2023 filing season, the IRS served 100,000 more taxpayers in person than the previous year, answered two million more calls, and [cut](#) phone wait times from 27 minutes to four minutes.
- The agency is also continuing to modernize and [accelerate](#) its paperless processing efforts over the next two filing seasons, which is expected to cut processing times in half and expedite refunds by several weeks.
- In October 2023, the IRS announced that it was [launching](#) a Direct File pilot in 13 states, which will enable many taxpayers to file their federal taxes online directly with the IRS for free.
- The IRS has also [expanded](#) the presence of Taxpayer Assistance Centers, which served 235,000 more taxpayers in fiscal year 2023 than the previous year.

### **The “tax gap” increased in the years prior to passage of the Inflation Reduction Act**

- The IRS recently [released](#) tax gap estimates for 2020 and 2021, which show their estimate of the difference between the amount of taxes owed and the amount of taxes the government received. The gross tax gap in 2021 increased to \$688 billion—well above estimates from prior years.
- The bulk of the tax gap can be attributed to the underreporting of income, with wealthy individuals and corporations accounting for much of the underreporting. Funding from the Inflation Reduction Act is enabling the IRS to narrow the tax gap by strengthening enforcement against these groups.

Maintaining funding for the IRS is crucial to securing the gains already underway for American taxpayers. Cuts to funding that has already yielded so many positive results for Americans would be a step backward for tax fairness and the federal budget.