



KEY FACTS ON NEW IRS FUNDING TO CLOSE THE TAX GAP

As of January 11, 2023

- The IRA will invest nearly \$80 billion in the IRS, which the [Congressional Budget Office](#) estimates will increase federal revenue by \$180 billion over the next decade, resulting in net deficit reduction of \$101 billion (originally CBO scored it as [raising a net \\$124 billion](#)) These investments include:
 - \$45.6 billion for Enforcement
 - \$25.3 billion for Operations Support
 - \$4.8 billion for Systems Modernization
 - \$3.2 billion for Taxpayer Services
- The [Treasury Department estimates](#) that \$80 billion of additional IRS funding over ten years could net \$400 billion in additional revenue over that same period, when accounting for factors such as improved customer service to prevent inadvertent underpayments, and deterrence effect towards tax-cheating due to enhanced enforcement.
- The Inflation Reduction Act reverses a decade of IRS budget cuts that have prevented them from catching many rich tax cheats: [funding and staffing are each down by at least 20%](#) over the past decade. As a direct result, audits of corporations are down by over half and audits of millionaires are down by almost three-quarters.
- This legislation will provide the funds needed for the IRS to hire the tax professionals needed to crack down on wealth and corporate tax cheats, who [avoid paying \\$160 billion a year](#), and to staff up customer service centers to help taxpayers wanting to [get their tax refund on time](#) or their [phone calls answered](#).
- **FACT CHECK:** The Inflation Reduction Act holds wealthy tax cheats accountable, ensuring the wealthiest pay their fair share without raising a penny in taxes on Americans making under \$400,000/year.
 - [AP Fact Check](#): “GOP skews budget bill’s impact on IRS, taxes,” Aug. 10, 2023
 - [Washington Post Fact Checker](#): “‘87,000 IRS agents’ is the zombie falsehood setting the House agenda,” Jan. 10, 2023
 - [PolitiFact](#): “Kevin McCarthy’s mostly false claim about an army of 87,000 IRS agents,” Aug. 9, 2022
 - [Time](#): “Trump Allies Are Attacking Biden For a Plan to Hire 87,000 New IRS Agents That Doesn't Exist,” Aug. 9, 2022
 - [Bipartisan group of former IRS commissioners](#), Aug. 4, 2022: “In fact, for ordinary Americans who already fulfill their tax obligations, audit scrutiny will decline, because the IRS will be better at selecting returns for examination. This bill is about getting to the heart of the problem and pursuing high-end taxpayers and corporations who today illegally evade their tax obligations.”

IRS Underfunding Crisis

- IRS annual funding has [declined by 20%](#) over the last decade, from around \$15 billion in 2010 to \$12 billion in 2021. That included a [25% cut to the IRS enforcement budget](#).
- IRS [staff is down 22%](#) over the past decade – dropping from 94,618 full-time equivalent workers in 2010 to 73,409 in 2021. Among dedicated revenue agents, the number of personnel [dropped by 40%](#).
- IRS audit rates [declined 58%](#) overall between 2010 and 2019, with audit rates among large corporations declining 54% and audit rates for millionaires dropping 71%.
- In 2011, taxpayers earning \$1 million or more were about [six times more likely to be audited than low-income families](#) receiving the Earned Income Tax Credit. By 2018, millionaire audits were only twice as likely as audits of EITC recipients.
- Even after getting caught, rich tax cheats in 2019 only paid 39% of what they owed according to the [Treasury Inspector General for Tax Administration](#). This while the [300 biggest tax delinquents](#) owed about \$33 million each on average.
- As of June 2022, nearly [21 million taxpayers were waiting](#) for their tax returns to be processed from last season, according to the IRS’s national taxpayer advocate. This may significantly slow down the process of getting tax refunds this year.
- Taxpayers find it very difficult to get their calls answered. Last year the IRS [received a record 282 million calls](#), but only 32 million of those calls were answered by customer service representatives (CSRs).

Tax Gap Estimates

- The Treasury estimates the annual tax gap is around \$600 billion, and predicts the gap will total [\\$7 trillion over the next 10 years](#).
- The [richest 1% of households evaded \\$163 billion](#), or 28%, of the total of unpaid or underpaid taxes in 2019, according to the Treasury.
- A [2021 independent study](#) from the National Bureau of Economic Research estimated that 36% of unpaid or underpaid taxes— \$175 billion—is owed by the top 1%.

Positive Talking Points

1. The Inflation Reduction Act ends a decade of budget cuts that made the IRS understaffed, underfunded, and without the resources it needs to serve the American people. No longer will there be a two tiered system with working people lawfully paying their taxes, while wealthy tax cheats are getting away without paying their fair share.
2. For years Republicans have slashed the budgets of the IRS to protect their wealthy campaign donors from having to pay the taxes they owe. These cuts to the IRS have made it easier for millionaires to get away with evading the taxes they owe while working families are stuck with the bill.
3. Rich tax cheats evade paying \$160 billion they owe every year. Democrats are using part of that recovered money to lower the cost of energy and healthcare for millions of Americans.
4. Republicans like to brag that they’re tough on crime. But when it comes to giving the IRS more money to make sure wealthy tax cheats pay what they owe they are fighting us tooth and nail.

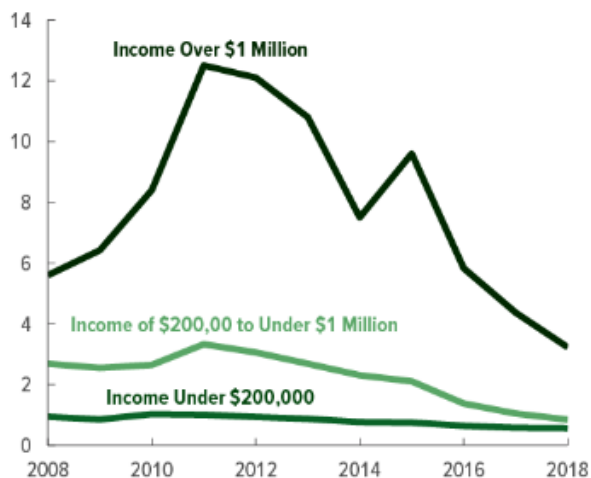
5. Improving IRS tax enforcement pays for itself. Every dollar given to the IRS produces up to a [7-to-1 return on investment](#).
6. IRS cutbacks have led to audits rates among millionaires declining around 70% since 2010. Low-income families receiving the Earned Income Tax Credit are nearly as likely to be audited as a millionaire ducking out on his taxes. The Inflation Reduction Act will reverse that trend.
7. IRS cutbacks have directly led to a [backlog of about 21 million](#) unprocessed tax returns. So while the wealthy evade paying millions of dollars in taxes they owe, working families have to wait hours to get someone to answer the phone at the IRS. The IRA makes an \$8 billion investment towards taxpayer services and systems modernization which will dramatically reduce wait times on refunds.

Dispelling Republicans Attacks

1. The legislation instructs the IRS to [not increase auditing](#) of people making less than \$400,000 a year, a position [affirmed by Treasury Secretary Janet Yellen](#): *“Specifically, I direct that any additional resources—including any new personnel or auditors that are hired—shall not be used to increase the share of small business or households below the \$400,000 threshold that are audited relative to historical levels. This means that, contrary to the misinformation from opponents of this legislation, small businesses or households earning \$400,000 per year or less will not see an increase in the chances that they are audited.”*
2. This point was reiterated by a group of [three bipartisan former IRS Commissioners](#) in a letter they wrote supporting the Inflation Reduction Act; *“The vast majority of workers already pay what they owe, which is why the Administration has been clear that audit rates wouldn’t increase for families making under \$400,000 annually. In fact, for ordinary Americans who already fulfill their tax obligations, audit scrutiny will decline, because the IRS will be better at selecting returns for examination. This bill is about getting to the heart of the problem and pursuing high-end taxpayers and corporations who today illegally evade their tax obligations.”*
3. Republicans' assertion that the [IRS will hire 87,000](#) new IRS workers is incredibly misleading. While a Treasury Department [report from May 2021](#) estimated that an \$80 billion investment would enable the IRS to hire roughly 87,000 employees by 2031, most of those hires wouldn’t be new permanent positions. In fact, the IRS has [lost roughly 50,000 employees](#) over the past five years due to attrition and enforcement staff has fallen by roughly [30% since 2010](#), due to Republican budget cuts.

Examination Rate for Individual Returns, by Amount of Income

Percentage of Returns



Source: CBO [Trends in the Internal Revenue Service's Funding and Enforcement](#), July 2020

On January 10th, 2023 House Republicans voted to cut IRS funding by \$71 billion, which would [reduce federal tax revenue by \\$186 billion](#) (\$114b net) over the next ten years. Republican staff on the Ways and Means Committee published a press release with anti-IRS talking points.

GOP Talking Point: Treasury's own proposal published in 2021 shows that the IRS would add 86,852 full-time equivalent employees by 2031. When CBO analyzed the proposal, it acknowledged the IRS would more than double its head count.

- **ATF response:** The Treasury report does say it would like an additional 86,852 full-time equivalent employees, but that is a gross number that takes into account current employee attrition levels over the next decade, not a net increase.

GOP Talking Point: New funding is not needed to replace retiring employees because when an employee retires, the funding for that employee remains unspent until the position is filled again. If they weren't hiring tens of thousands of people, they wouldn't need \$80 billion dollars. Even the Washington Post acknowledged this while partially retracting claims in a previous fact check.

- **ATF response:** This is a bald face lie, the IRS has seen their workforce decline by 40,552 or 34% ([119,213](#) to [78,661](#)) between 1991 and 2021, even as the number of tax returns has jumped by 126% from [115.4 million](#) to [261 million](#), in the past 30 years. Just over the past decade IRS [staff is down 22%](#). This lack of resources has helped contribute to the [estimated \\$7 trillion tax gap](#).

GOP Talking Point: The IRS's numbers are highly disputed. Former IRS Commissioner Rettig testified before Congress that the tax gap could be as high as \$1 trillion—contradicting the official IRS estimate of \$381 billion per year. President Biden's Tax Compliance Agenda uses an estimate of \$630 billion. Yet the most recent IRS tax gap estimate actually showed that the US voluntary compliance rate increased significantly. Worse, these estimates are outdated. All of these estimates are based on years-old data, including before a tax reform that simplified the tax code and improved compliance. IRS fell short with past funding increases: Despite the Biden Administration's claim that more money will increase IRS audits and increase revenue from wealthy individuals and corporations, the Treasury Inspector General for Tax Administration actually found that despite using significant resources auditing large businesses, the IRS failed to bring in money to the Treasury from those audits nearly 50 percent of the time.

- **ATF response:** Whether the tax gap is \$1 trillion, \$2 trillion or \$7 trillion, we are losing buckets of money to tax evasion and Democrats' relatively small investment (\$80 billion over ten-years is roughly 0.12% of federal spending) can make a big dent in the problem. The Congressional Budget Office has definitely stated this year that Republicans' attempt to slash the IRS budget would [reduce revenue by \\$186 billion](#).

GOP Talking Point: Studies from the nonpartisan Joint Committee on Taxation found an increased likelihood of audits for the middle class under Democrats' agenda. Democrats voted against protecting taxpayers making less than \$400,000 from increased audit scrutiny. Even the CBO found that shielding lower- and middle-class taxpayers from audits in the bill would mean \$20 billion fewer dollars in revenue collected by the agency.

- **ATF response:** Quite the opposite, these additional resources will make it easier for the IRS to target the ultra-wealthy since they will no longer be hamstrung by Republican budget cuts, to go after only the lowest hanging fruit. Of the roughly [\\$600 billion in tax evasion 64% is done by the top 10% of earners](#). Under Republican budget cuts million \$ earners have seen their audit rates decline from [9% in 2010 to 2% in 2017](#). That meant going from 5x more likely to be audited than a person claiming EITC, to just 2x as likely.

GOP Talking Point: Congress's nonpartisan scorekeeper admitted that it applies rules for spending inconsistently. In fact, using the agency's own guidelines, it should not have assumed so much revenue would come in from new audits, which enabled Democrats to use the IRS as a budget gimmick. Thanks to CBO's estimate of revenue from new audits of low-income families, Democrats could claim to pay for their Green New Deal handouts without significantly adding to the debt.

- **ATF response:** It is Republicans hiding behind budget gimmicks not Democrats. In 2017 Republicans used a 10-year budget window to pass a front-ended 7-year tax giveaway, so they have no right lecturing anyone about budget gimmicks. If anything the CBO score underestimates the full revenue potential of IRS funding, because it only looks at audit rates and not other important factors like technology upgrades.

GOP Talking Point: Republicans held the agency accountable and has even worked to reform it in a bipartisan way. After the IRS targeted conservative and tea party groups for scrutiny, President Obama agreed to cut the IRS budget. In recent years the agency's budget has risen significantly and the agency received well over \$1 billion in supplemental funding during the pandemic. Republicans fought to pass the bipartisan Taxpayer First Act in 2019, which focused on improving the IRS and providing more resources. Democrats turned their backs on that bipartisan effort.

- **ATF response:** In real \$ terms, during the 8 years Republicans held the House (2011 to 2019), annual IRS funding declined from [\\$14.9 billion to 12.6 billion](#), or 16%. This budget cut happened concurrently with a rapid decline in audits for millionaire taxpayers from [9% in 2010 to 2% in 2017](#).

IRS NEWS CLIPS

- TIME magazine excerpts:
 - "In all, the IRS might net roughly 20,000 to 30,000 more employees from the new funding, enough to restore the tax-collecting agency's staff to where it was roughly a decade ago.
 - The IRS currently has roughly 78,000 employees. According to John Koskinen, who served as IRS commissioner from 2013 to 2017, that's down from around 100,000 when he first started. By the time he resigned four years later, he said, it was clear that the agency was in the grip of a systematic attempt by the GOP to weaken it."
 - Beginning in 2010, when Republicans took back control of the House of Representatives they immediately instituted a series of crippling cuts on the IRS. Since then, overall funding for the IRS has fallen further, by more than 20 percent, while enforcement funding has dropped by one-third. That's made it easier for wealthy tax cheats and major corporations to avoid federal taxes to the tune of billions of dollars. [I like saying paying the taxes they owe]
 - "The largest corporations in the United States with over \$20 billion of assets have had their rate of audits go from nearly 100% to 50%."
<https://time.com/6204928/irs-87000-agents-factcheck-biden/>

- Based on the text of the Inflation Reduction Act, Treasury Secretary Janet Yellen wrote in a [letter to IRS employees](#): “Contrary to the misinformation from opponents of this legislation, small business or households earning \$400,000 per year or less will not see an increase in the chances that they are audited.
- National Treasury Employee Union Talking Points
This is not 87,000 new agents or a doubling of the size of the agency. The IRS predicts it will lose 52,000 employees over the next six years to attrition and retirement, so a lot of these new hires are replacing existing employees. And, many of the employees are not revenue agents or revenue officers but customer service representatives, submission processing and other less visible, but just as important, positions throughout the IRS.

NYT: [More Money for I.R.S. Spurs Conspiracy Theories of ‘Shadow Army’](#)

Washington Post: [How the Mar-a-Lago search has helped fuel GOP attacks on the IRS](#)

Washington Post: [‘87,000 IRS agents’ is the zombie falsehood setting the House agenda](#)