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IRS Budget Cuts Could Cost Government Billions

The government is set to reduce the allocation for the IRS in the budget, a move that the IRS warns could cost the country billions of dollars in lost taxes. The move to cut hundreds of millions of dollars from the IRS budget could in turn result in a severe reduction of IRS services to taxpayers and cost up to \$4 billion in lost revenue annually, according to IRS Commissioner Doug Shulman. Shulman issued a letter to lawmakers in which he said the budget cuts “would lead to noticeable degradation of both service and enforcement and would have a serious detrimental impact on voluntary compliance for years to come.”

At a time when the annual budget deficit has reached its highest ever level of \$1.3 trillion, the government is searching for ways to reduce costs.

The IRS was allotted \$11.5 billion through a bill passed by the House Appropriations Committee for the fiscal year 2012, which started October 1. The amount was \$600 million less than the allocation last year and \$1.8 billion less than what President Obama asked for. On the other hand, The Senate Appropriations Committee version of the bill would provide \$11.7 billion.

Citing real life examples of how tax revenue could be lost, Shulman explained that the budget cuts would necessitate a reduction of staff which would hamper collection efforts. Letters sent to the IRS would take longer to be answered, usually by up to 5 months. About half of the telephone calls made to the IRS would not even be picked up. Many of these phone calls are invariably from individual taxpayers and businesses who have failed to keep their tax obligations current and want to contact the IRS to work out a payment plan before being penalized.

With these consequences, it is surmised that up to \$4 billion in taxes would be lost and this would easily wipe out whatever cost savings from the reduction in allocation to the IRS. Shulman wrote in his letter, "In other words, these budget cuts will result in a direct increase to the nation's deficit."

Shulman said the IRS has already begun cost cutting measures because the agency could not afford to wait until the completion of the normal congressional budget process. By the time the process is through, it would be too late for the IRS to take action.

Rep. Jo Ann Emerson (R-Mo.), head of the House Appropriations committee that authored that bill, clarified that the reduction in allocation was designed not to adversely affect collections and services. Nevertheless, she also added, "Like families across the country, the IRS will have to do more with less."

Ironically, in 2007 the IRS collected 17% more revenue than in 2006 due to enforcement actions even though there was no increase in the IRS budget at that time.