



January 19, 2012

## Should IRS Budget be Cut?

In a recent report it has been revealed that IRS corporate auditors find an average of \$9,354 in unpaid taxes owed by companies every hour they spent examining their tax returns. These are generally owed by the 14,000 or so of the largest companies in the United States in the 2009 fiscal year who pay about 86% of corporate income taxes.

But here's the kicker – these corporate auditors may be axed soon, not because they have not been performing but simply because Congress has reduced the IRS annual revenue by about 5% this year. Without these corporate auditors, how can the unpaid taxes be recovered? If the cost of keeping these corporate auditors on the IRS payroll exceeds the amount of taxes they could recoup, then the action by Congress can be considered sensible. But an IRS auditor makes at most \$71 an hour. Based on a 2,080-hour work year, it would mean a loss of about \$19 million in annual revenue for every senior corporate auditor axed by the IRS. So does it make sense to reduce the IRS budget?

In fact, the National Taxpayer Advocate Nina Olsen herself recommended to Congress that they should “ensure that the IRS continues to be effective, either by reducing the IRS' workload or by providing adequate funding to enable it to accomplish its assigned mission.”

The likely major factor contributing to the reduction in IRS financial allocation could be the increasing influence of unions and corporate lobbyists and the decision by the Supreme Court in Citizens United that allows corporations (and unions) to spend all they can afford on influencing elections.

The reduction of revenue for the IRS will likely jeopardize ordinary taxpayers because it would mean slower refund rates and poorer standards of service (think more unanswered calls to the IRS, longer waits while you are put on hold and more difficulty getting issues resolved). Generally, these people do not cheat on their taxes because their incomes can be easily checked by the IRS through reports by employers, mortgage banks and others. Yet these are the very ones who will suffer because of the IRS budget cut.

On the other hand, the ones who would likely benefit are the tax evaders, more of whom may slip through the net because of a shortage of enforcement officers and auditors in the IRS. Another group of taxpayers likely to benefit would be sole business owners out to game the system. Statistics in the IRS tax gap report released on January 6 have shown that only 1% of wage earners escape tax but a staggering 56% of businesses where little or no verification of their incomes escape tax.

Twenty years or so ago, there were about 118,000 IRS employees. Now the IRS has about 95,000 workers and soon it may be reduced to some 90,000. The likelihood of a big company being audited has fallen by 50 percentage points from 72% twenty years ago to 22% in 2010.