

Congress of the United States
Washington, DC 20515

March 29, 2017

The Honorable Tom Graves
Chairman
Financial Services and General
Government Appropriations Subcommittee
Washington, D.C. 20515

The Honorable Mike Quigley
Ranking Member
Financial Services and General
Government Appropriations Subcommittee
Washington, D.C. 20515

Dear Chairman Graves and Ranking Member Quigley:

We request you provide \$12.9 billion for the Internal Revenue Service (IRS) for FY 2018. An increase in funding for the IRS will reverse the short-sighted and damaging budget cuts which have increased our national debt, left the IRS ill-equipped to combat refund errors and fraud, drastically reduced taxpayer services, dangerously reduced audits, and limits the IRS's ability to implement new laws passed by Congress.

At his confirmation hearing, Steve Mnuchin, Treasury Secretary, said, the IRS is "understaffed and under-resourced" and must increase its staff and modernize technology. He urged Congress to ensure the IRS can protect American taxpayers' information from cybersecurity threats adding, "I can assure you that the president-elect understands the concept of 'we add people, we make money.' That's a very quick conversation with Donald Trump." He is correct; there is an urgent need to adequately fund the IRS. The IRS budget is currently \$900 million lower than it was in FY 2010 and the IRS is operating with 17,000 fewer full-time employees (FTE). In essence, the IRS has already sustained a 7.5% budget reduction, or 17% in real terms along with a seven-year hiring freeze since FY 2010.

The IRS is by far the most efficient tax administrator of all the major economies, with others spending up to twice as much to collect a dollar of revenue. The IRS plays a significant role for the government, especially in the area of revenue enhancement, with more than \$3.3 trillion collected by the IRS each year because taxpayers voluntarily fulfilled their tax obligations and \$50 billion to \$60 billion a year from direct enforcement activities. Additionally, a robust, properly functioning IRS is also essential to ensuring the successful implementation of critical Congressional priorities.

The decline in taxpayer service and enforcement and the instability of underlying IT systems that support them threaten to undercut the basic voluntary compliance fabric of our tax system. A one-percent drop in the compliance rate translates into a revenue loss of approximately \$30 billion per year, or \$300 billion over the 10-year budget window. While this decline has been

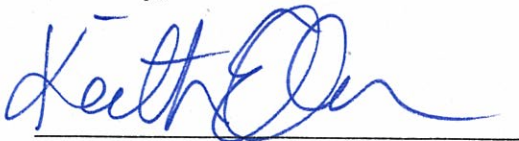
occurring, the number of individual returns filed has been growing by more than 10 million (or nearly 7%), from 141 million in FY 2010 to 153 million expected in FY 2017.

During these recent years of declining budgets and staffing, the Service's IT requirements were steadily increasing, as a result of the need to implement measures such as the Affordable Care Act, Achieving a Better Life Experience Act, Foreign Account Tax Compliance Act, Health Coverage Tax Credit, and Protecting Americans from Tax Hikes Act and Private Debt Collection. In addition, as it tightened its belt, the IRS deferred investing or refreshing its existing IT infrastructure. As a result, 63% of IT hardware systems are now aged and out of warranty and 32% of its software products are two or more releases behind the industry standard with 15% more than four releases behind. Additionally, the increasing number of cybersecurity threats and the need to modernize systems to protect one of the world's most valuable data caches cannot be overstated. In FY 2016, the Service had more than one billion attempts to infiltrate their systems and the number of identity theft cases has grown from 188,000 in FY 2010 to 457,000 in FY 2016. Current resources allow closing of about 500,000 per year and any cut to resources would negatively affect these efforts. This aging IT infrastructure puts the American tax system at risk of failure.

In addition to the risk posed by an aging infrastructure, insufficient staffing levels affect IRS operations. While the customer service delays have drawn attention – about half of callers hang up before talking to an advisor and those that do get through sit on hold for a half hour or more – other inadequate staffing impacts are just as problematic. Because of the extended hiring freeze, for some systems or processes, the Service has only one or two employees with the requisite skills to maintain them and progress in some programs is on pause because of the lack of qualified staff to run them. Additionally, as a direct result of the budget reductions, the IRS has lost about 14,000 permanent enforcement staff since FY 2010. For example, a critical function is oversight responsibilities of non-bank financial institutions such as money services businesses. The agency needs more examiners to strengthen oversight of these entities. Inadequate staffing has resulted in a cumulative reduction to enforcement revenue of over \$30 billion between 2010 and 2016. If the FY 2010 enforcement staffing levels had been maintained, the IRS could potentially collect on average approximately \$10 billion more in enforcement revenue annually in the future. Further, 25 percent of the IRS staff are retirement eligible and might leave at any time.

It is time for Congress to increase funding that allows the IRS to provide timely taxpayer services; invest in advanced technology to combat the growing problem of refund overpayments, specifically identity theft refund fraud; adequately fund tax enforcement and oversight responsibilities including addressing cybersecurity threats; provide resources for investment; and lower our national debt.


Sincerely,



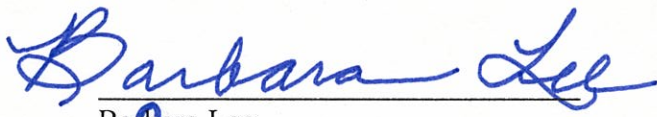
Keith Ellison
Member of Congress

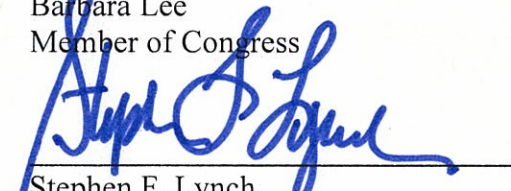


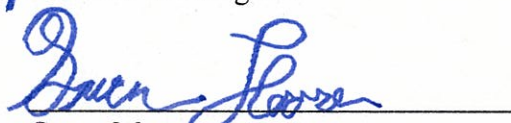
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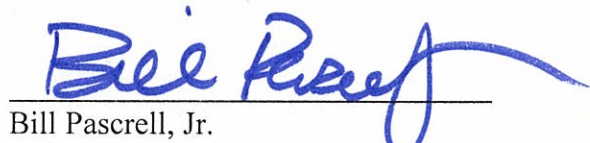

Colleen Hanabusa
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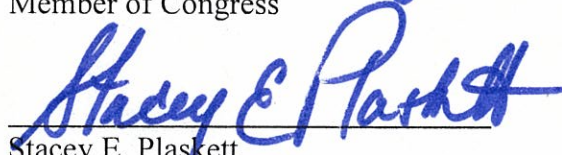

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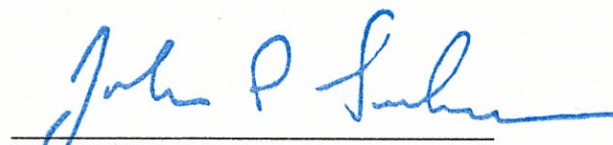

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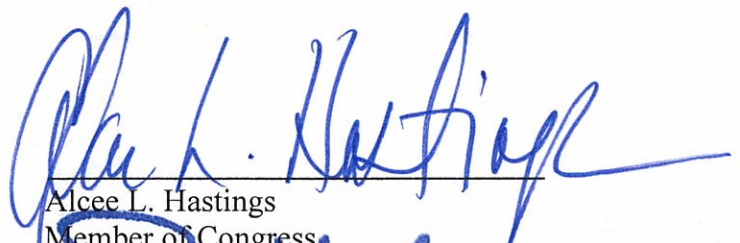

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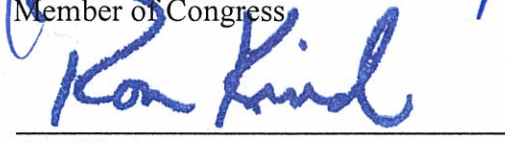

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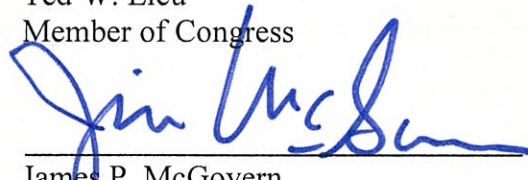

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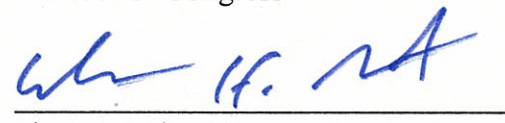

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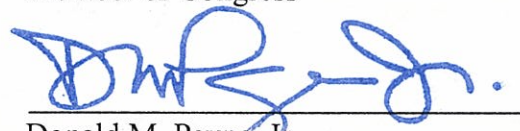

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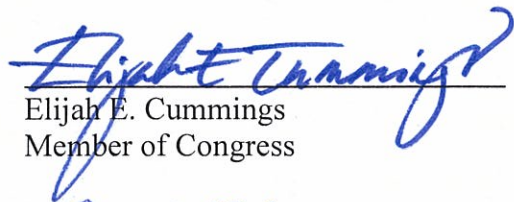

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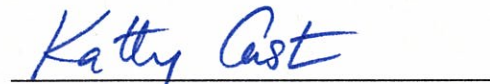

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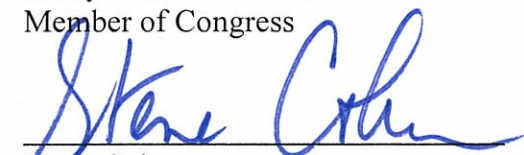

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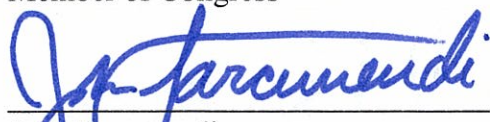

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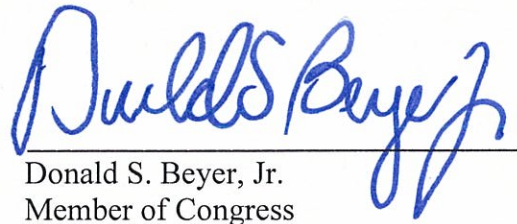

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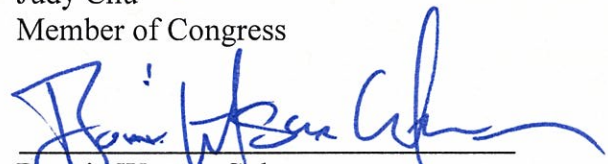

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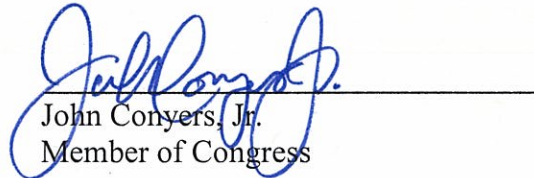

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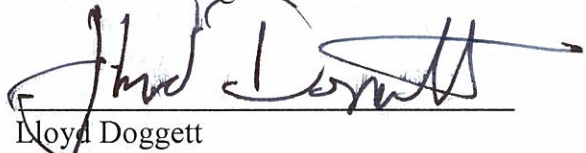

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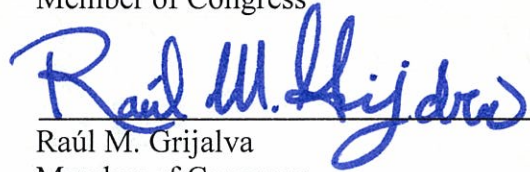

Bonnie Watson Coleman
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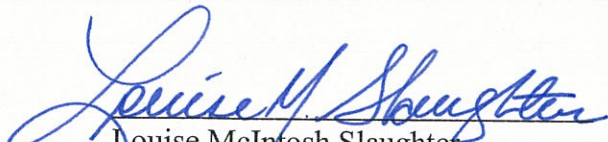

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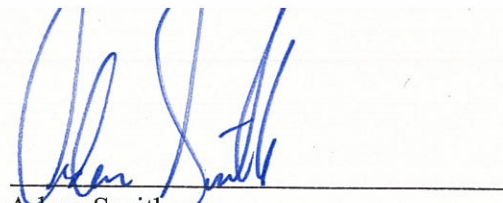

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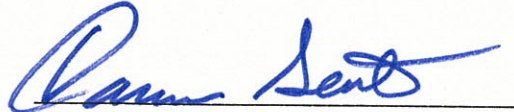

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Raúl M. Grijalva
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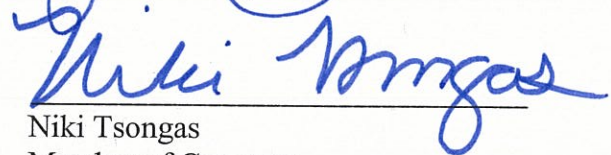

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Adam Smith
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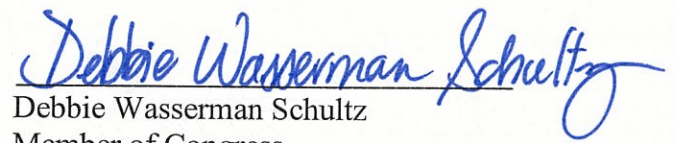

Darren Soto
Member of Congress

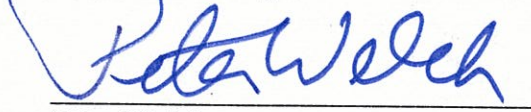

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