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However, Treasury warned that if $20 billion is cut from the IRS's funding allotment, it would reduce revenues by over $100 billion.

Jason Bramwell • Feb. 06, 2024

A new Treasury Department analysis says the IRS could turn the nearly $80 billion in funding it's receiving from the Inflation Reduction Act into $561 billion in overdue and unpaid taxes collected over the next 10 years, higher than earlier estimates.

In fact, the report states that if the Inflation Reduction Act funding is renewed after it

administration has proposed extending and maintaining IRS investments after the IRA funds are exhausted, which would enable the IRS to collect $851 billion over 2024 to 2034. Conversely, additional rescissions of IRA resources or cuts to IRS base funding would further reduce revenue collections and could reverse taxpayer service improvements that have already been made and even endanger near-term enforcement efforts."

Treasury said in the report that previous IRS estimates of Inflation Reduction Act revenues were limited to money brought in by direct enforcement activities resulting from higher enforcement staffing.

But those estimates "did not present a complete picture of the revenue benefits of the innovative investments we are making under the IRA SOP (strategic operating plan). The approach ignored many activities that will influence revenue, including enhancing services to improve voluntary compliance, modernizing technology, and adopting analytic advances that can dramatically improve productivity. It also ignored the deterrence effect of compliance activities on taxpayers' behavior."

Treasury continued, "To account for the potential revenue impact of the full array of investments contemplated in the IRA SOP, we need to look at the effects on revenue collection in a more comprehensive way. For example, we are improving our notices to make them more readily understandable and to reach people at an optimized moment, such as sending notices with resources prior to major tax due dates or following legislative changes that impact taxpayer population groups. We are also improving customer service to increase the likelihood that taxpayers will successfully connect with the appropriate resources to resolve their issue upon receiving a notice. Similarly, foundational investments in IT infrastructure will boost efficiency. We cannot ignore the benefits of these improvements."

The report states that using previous methods for estimating enforcement revenue,

raise $561 billion over FY 2024-2034," the report says.

Table 2: Revenue Associated with IRA Investment Extended through Fiscal Year 2034
[Amounts are in billions of dollars]

Type of revenue	FY 2024–FY 2034 Total
Previous method for estimating enforcement revenue	
Revenue	
Direct revenue	290
Soft notices	18
CI restitution paid	1
Total direct revenue (IRA)	**309**
Revenue protected (LB&I)	67
Revenue protected (W&I)	14
Previous method for estimating enforcement revenue, total	**390**
Impact of changing marginality assumption, assuming efficiency gains for direct revenue and soft notices, and adding specific deterrence	
Direct revenue & soft notices	68
Specific deterrence	39
Expanded enforcement estimates, total	**497**
Impact of efficiency gains	
Leveraging behavioral science tactics	53
IT modernization	301
Efficiency gains, total	**354**
Diversified revenue strategies, total	**851**

Table taken from Treasury Department report, "Return on Investment: Re-Examining Revenue Estimates for IRS Funding."

In addition to its FY 2023 annual appropriation of $12.3 billion, the IRS received approximately $79.4 billion in supplemental funding over a 10-year period when President Joe Biden signed the Inflation Reduction Act into law in August 2022. Approximately $1.4 billion of that funding has been rescinded by lawmakers as part of debt ceiling negotiations earlier this summer. Another $20 billion or so will be cut and repurposed as part of the agreement last June between Biden and then-House

The Inflation Reduction Act investments in the IRS were necessary because of a decade of deep funding cuts from Congress that resulted in unacceptable service levels, prevented technological upgrades, and undermined enforcement, particularly efforts focused on wealthy individuals and big corporations that failed to pay the taxes they owe, Treasury said. Driven by these funding cuts, the audit rate on millionaires fell by more than 70% from 2010 to 2019, and the audit rate on large corporations fell by more than 50% over the same period.

The tax gap—the difference between taxes owed and taxes paid—grew to $688 billion in tax year 2021.

The IRS said last month it has recouped roughly $482 billion in back taxes from rich tax cheats since last October because of improvements that have been made to modernize the agency using the Inflation Reduction Act funding.

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