



February 20, 2018

The Honorable Thad Cochran  
Chairman  
United States Senate  
Appropriations Committee  
Washington, D.C. 20510

The Honorable Rodney Frelinghuysen  
Chairman  
United States House of Representatives  
Appropriations Committee  
Washington, D.C. 20515

The Honorable Patrick Leahy  
Vice-Chairman and Ranking Member  
United States Senate  
Appropriations Committee  
Washington, D.C. 20510

The Honorable Nita M. Lowey  
Ranking Member  
United States House of Representatives  
Appropriations Committee  
Washington, D.C. 20515

RE: Funding the IRS to Implement Tax Reform Legislation and Fund Taxpayer Service

Dear Chairs and Ranking Members:

The Texas Society of Certified Public Accountants (TSCPA) is a nonprofit, voluntary professional organization representing 28,000 members. One of the expressed goals of the TSCPA is to speak on behalf of its members when such action is in the best interest of its constituency and serves the cause of the CPAs of Texas, as well as the public interest. TSCPA has established a Federal Tax Policy Committee (FTP) to represent those interests on tax-related matters. The FTP has been authorized by the TSCPA Board of Directors to submit comments on such matters of interest to the committee membership. The views expressed herein have not been approved by the Board of Directors or Executive Board and, therefore, should not be construed as representing the views or policies of the TSCPA.

The TSCPA Federal Tax Policy Committee urges you to support full funding of the necessary functions of the Internal Revenue Service (IRS) in the fiscal year (FY) 2018 budget, plus funding for the IRS to address those additional questions and issues that will need to be addressed as a result of recent significant tax law changes. Congress has been considering a budget cut for the IRS of \$100 million. We believe this would be detrimental to the taxpaying public, the tax system and the nation's need for revenue through a voluntary compliance taxation system.

We appreciate the conference committee's recommendation to fund cybersecurity, taxpayer services, budget presentations to Congress and other initiatives. However, our concern is that even these recommendations may be insufficient to remedy the ill effects that recent punitive budget cuts have created. We encourage you to consider a very significant budget increase for the IRS to implement new tax reform legislation and to make up for past cuts which have greatly impaired the IRS' ability to deliver on its mission of collecting revenue for the country and serving taxpayers. We

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are concerned that the problems mentioned in our previous letters to Congress have become even more critical as time has progressed.<sup>1</sup>

We also support the letter sent by the American Institute of Certified Public Accountants (AICPA) dated Jan. 30, 2018, on IRS funding.<sup>2</sup>

### **Funding is Needed Despite Congressional Concerns**

We recognize and respect concerns expressed by some members of Congress that the IRS may have at times (i) misused some of its funding, and (ii) taken actions that have not always been in the best interests of the taxpaying public. However valid these concerns, the amounts at issue have represented a very small portion of the total IRS funding and have also involved a relatively small segment of total IRS personnel. We respectfully submit that these concerns are better addressed by review and policy changes within the IRS rather than cutting its budget, thereby disadvantaging many taxpayers and inhibiting the IRS' ability to achieve its charged function. Since the government is in the process of changing the IRS leadership and the appointment of a new commissioner of revenue is in progress, now would seem to be a proper time to increase the IRS budget to allow the new leadership the tools needed to succeed.

### **Congress Should Provide Funds to Implement New Tax Reform Legislation**

The IRS has stated that it needs an additional \$495 million in FY 2018 and 2019 to implement P.L. 115-97, a law that contains complicated and major changes to the Internal Revenue Code.<sup>3</sup> This preliminary estimate merely covers the amount required for both FY 2018 and 2019 to reprogram computers, update the tax forms, and provide guidance to taxpayers through information and regulations necessary to enable them to comply with the new law. In a letter to the Treasury Department and the IRS on Jan. 29, 2018, the AICPA identified 38 provisions of the new law that require immediate guidance from the IRS to enable taxpayers and practitioners to comply with the new statute and to make informed decisions regarding taxpayer rights and responsibilities under the new tax law.<sup>4</sup> In addition, the IRS must modify or create new tax forms related to the law; update or develop new publications to inform the public of tax provisions; review and update rulings; reprogram computers to analyze and process tax returns; train and possibly hire additional taxpayer service employees to respond to questions from taxpayers; and generally, collect revenues and serve taxpayers. This money must come from additional budgeted funding or from other IRS programs that are already seriously resource-deficient. We agree with National Taxpayer Advocate Nina Olson who stated that,

“The IRS absolutely needs more funding.... It cannot answer the phone calls it currently receives, much less the phone calls it can expect to receive in light of tax reform....”<sup>5</sup>

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<sup>1</sup> TSCPA issued a letter to U.S. House and Senate Appropriations Committees on March 19, 2012, regarding IRS budgetary restraints: <http://tscpafederal.typepad.com/files/tscpa-ltr-to-appropriations-on-irs-budget-concerns-3-19-12-2.pdf>. TSCPA's Federal Tax Policy Committee issued a subsequent letter Nov. 5, 2014, asking Appropriations to support adequate IRS funding to service taxpayers and increase voluntary compliance.

<sup>2</sup> <https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/aicpa-pub-l-no-115-97-house-and-senate-letter-wguidance-request.pdf>

<sup>3</sup> National Taxpayer Advocate's 2017 Annual Report to Congress, Preface, 5 (Jan. 10, 2018).

<sup>4</sup> <https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/20180129-aicpa-guidance-request-on-pub-l-no-115-97.pdf>

<sup>5</sup> Ibid, NTA 2017 Annual Report to Congress, Preface, 2-5.

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After the *Tax Reform Act of 1986*, President Reagan asked for an additional 5,000 IRS employees (later increased to 10,000) to implement that act. At that time, the agency changed 162 existing forms, developed 48 new forms and created 13 new publications.<sup>6</sup> The workforce was increased from 102,189 in FY 1987 to 114,975 in FY 1988. At the end of 2016, the IRS workforce had been reduced to 76,219, and this workforce reduction has been felt across most IRS functions with removal of IRS personnel from many American communities. After the Reagan tax cuts in 1986, the IRS experienced a 14 percent increase in call volume with questions about the new law; the IRS is currently unable to handle its present call volume.<sup>7</sup> If the call volume increases similarly to the needs in 1987 and 1988,<sup>8</sup> greater taxpayer confusion and dissatisfaction with the IRS will result. Sufficient resources are currently unavailable at the past appropriations level for the IRS. In addition to the major tax law changes, the IRS has been charged with implementing an incredibly complicated new centralized partnership audit regime enacted some years ago, but newly effective starting in 2018. This implementation will require sufficient funding and significant effort by the IRS and the Treasury.

### **IRS Needs Funds for Its Two Critical Missions—Collecting Revenue and Serving Taxpayers**

In addition to funding the IRS to administer new legislation, the IRS needs restored funding to achieve its traditional mission—collecting revenue and serving the public. The IRS has historically been one of the most efficient tax services in the world, but still has had its budget cut year after year, by some \$300 million since 2009,<sup>9</sup> to the point that it is close to being unable to effectively collect revenue for the government and serve the taxpaying public.

### **IRS Hamstrung in Collecting Revenue that Could Reduce the Deficit and National Debt**

Inadequate funding for the IRS reduces the level of taxpayer compliance and tax revenues at a time of concern over deficits and the national debt. Given the lower tax rates enacted by P.L. 115-97, compliance and enforcement are even more critical to collecting the proper amount of taxes and reducing deficits. Our self-assessment system of taxation must have a credible IRS audit potential to assure adequate compliance with the tax laws. Audit levels have dropped steadily to the point where there is a significant risk that many taxpayers will feel free to “resolve” complexities in the tax law by inappropriately taking filing positions in their favor rather than working to find the right answer. This is compounded by the lack of readily available taxpayer information services where they might obtain the right answer combined with a perception that an audit is statistically unlikely.<sup>10</sup> Noncompliance can become infectious without an effective audit potential. As tactfully stated by Nina Olson,

“Yes, taxpayers know there may be consequences for blatant noncompliance, but if and when the opportunity presents itself for a taxpayer not to comply in subtle ways that are hard to detect (e.g., reporting cash-economy income) the taxpayer may be more likely to take the opportunity....”<sup>11</sup>

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<sup>6</sup> Ibid, 5.

<sup>7</sup> Charles S. Clark, “Could a Resource-Strapped IRS Handle Tax Reform?” (Nov. 30, 2017).

<sup>8</sup> U.S. General Accounting Office, February 1989 Report to Congressional Requesters, Tax Administration – Accessibility, Timeliness, and Accuracy of IRS’ Telephone Assistance Program (February 1989) GAO/GGD-89-30.

<sup>9</sup> *The Washington Post*, “An Overtaxed IRS” (Jan. 16, 2018).

<sup>10</sup> Ibid, NTA 2017 Annual Report to Congress, Preface: “The IRS has received more than 95 million calls each year since Fiscal Year (FY) 2008. Even before the enactment of Public Law 115-97, the IRS estimated that during the 2018 filing season it would only answer about six out of 10 calls from taxpayers seeking to speak to a live assistor....”, 2.

<sup>11</sup> Ibid, 6.

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Congress passed major tax revisions and must now take responsibility to make certain that its goals in doing so can be achieved. Failure to successfully implement the new law could harm the economy and anger voters.

### **IRS Still Needs to Improve Taxpayer Service**

The IRS has direct contact with more citizens than any other government agency. While paying taxes is never a pleasant experience, it should not be frustrating. Taxpayers and their advisers should not have to hold on the telephone for long periods when seeking assistance and, when they connect, they should have a knowledgeable and empowered IRS staff person on the line. Taxpayers should be able to get timely, substantive and accurate responses to written inquiries. Examinations should be conducted efficiently and fairly. Refund claims should be processed promptly. When needed, taxpayers and their representatives should not have to travel for hours because more accessible IRS offices have closed. This is particularly a problem for larger states like Texas and California. Without personal and local contact, taxpayers increasingly view the IRS as a distant and uncaring bureaucracy; this undermines our self-assessment system of taxation.

The National Taxpayer Advocate, the Treasury Inspector General for Tax Administration, the IRS Oversight Board and the Government Accountability Office have all cautioned that recent cuts have weakened the IRS' ability to serve taxpayers.

Year after year, the IRS budget has been cut while additional responsibilities have been added. These include dealing with identity theft and fraud, bitcoins and virtual currencies, tax relief from hurricanes and other natural disasters, additional required partnership audits under new and more complicated rules, parts of the *Affordable Care Act*, the *Foreign Account Tax Compliance Act*, and now the tax reform legislation that has just been passed. In her 2017 report to Congress, Nina Olson said,

"Funding cuts have rendered the IRS unable to provide acceptable levels of taxpayer service, unable to upgrade its technology to improve its efficiency and effectiveness, and unable to maintain compliance programs that both promote compliance and protect taxpayer rights.... There is no doubt that the IRS needs more funding."<sup>12</sup>

For the most part, IRS employees are hard-working and doing their best with the funds available, but as we see in our interactions, many are demoralized as increased work is being processed by fewer staff. There are limited funds to train employees, and the IRS lacks funds to hire and train new employees.<sup>13</sup> Many senior employees are retiring or have retired. IRS computer systems are outdated and this may place confidential taxpayer information in jeopardy, as well as endanger the continuing operations of the agency.

### **Funding for Taxpayer Advocate Services**

The Office of the Taxpayer Advocate provides an invaluable service to the tax system by knowledgeably and objectively identifying and making recommendations to address issues of concern to taxpayers. This is crucial to improving service to taxpayers and providing effective and efficient tax administration in collecting revenues. It is important that the funding include appropriate requests by Nina Olson to fund the Taxpayer Advocate's office and provide her and her staff the

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<sup>12</sup> Ibid, 1.

<sup>13</sup> Ibid, MSP #7 Employee Training: "In FY 2017, the IRS spent \$489 (over 0.3 percent of its budget) per employee on training compared to about \$1,450 per employee in FY 2009." 85.

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tools they need to issue and enforce Taxpayer Advocate orders to assure taxpayer rights are secured and protected. We commend your attention to the Taxpayer Advocate's 2017 Annual Report to Congress, which details the critical revenue needs of the IRS.

### **Conclusion**

While some members of Congress have in the past expressed a loss of confidence in the IRS, we believe a newly appointed commissioner, along with a well-funded budget to support tax compliance, taxpayer information security, and to implement the revised tax laws, could bring change and restore congressional, and more importantly, public confidence in our tax system. We urge you to put the past behind and forge ahead with the effective implementation of tax revisions and full funding of the IRS.

Sincerely,



Christina A. Mondrik, JD, CPA  
Chair, Federal Tax Policy Committee  
Texas Society of Certified Public Accountants

cc: Members of the U.S. Senate Appropriations Committee  
Members of the U.S. House Appropriations Committee  
Members of the U.S. Senate Finance Committee  
Members of the U.S. House Ways and Means Committee  
Members of the Congressional Caucus on CPAs and Accountants  
Texas Members of U.S. Congress  
The Honorable David Kautter, Acting Commissioner of Internal Revenue Service  
The Honorable Steven Mnuchin, Treasury Secretary  
Thomas A. Barthold, Chief of Staff, the Joint Committee on Taxation  
Nina E. Olson, National Taxpayer Advocate  
Annette Nellen, CPA, CGMA, Esq., Chair, AICPA Tax Executive Committee  
Jim Oliver, CPA, CGMA, CFP, TSCPA Chairman  
Jodi Ann Ray, TSCPA President & CEO