



American Payroll Association

Government Relations • Washington, DC

September 16, 2014

The Honorable Tom Udall
Chairman
United States Senate
Committee on Appropriations
Subcommittee on Financial Services
and General Government
110 Hart Senate Office Building
Washington, DC 20510

The Honorable Ander Crenshaw
Chairman
United States House of Representatives
Committee on Appropriations
Subcommittee on Financial Services
and General Government
440 Cannon House Office Building
Washington, DC 20515

The Honorable Mike Johanns
Ranking Member
United States Senate
Committee on Appropriations
Subcommittee on Financial Services
and General Government
404 Russell Senate Office Building
Washington, DC 20510

The Honorable José Serrano
Ranking Member
United States House of Representatives
Committee on Appropriations
Subcommittee on Financial Services
and General Government
2227 Rayburn House Office Building
Washington, DC 20515

Re: Funding for the Internal Revenue Service

Dear Chairmen Udall and Crenshaw and Ranking Members Johanns and Serrano:

The American Payroll Association (APA) urges you to consider the importance of providing the Internal Revenue Service (IRS) with adequate funding for the 2015 fiscal year. We are concerned by the cuts to the IRS budget included in the Financial Services and General Government Appropriations Act (H.R. 5016). The budget passed by the House of Representatives would cut the overall IRS budget by approximately 13% from current levels, while funding for IRS enforcement would be sharply reduced by approximately 25% compared to the current fiscal year. The IRS serves a critical role by informing taxpayers of their rights and responsibilities and fairly administering our tax system. The IRS must also have the resources to deal effectively with new and emerging issues such as identity theft. To operate effectively, the IRS must be adequately funded.

About the APA

The APA is a nonprofit professional association representing more than 20,000 payroll professionals and their employers in the United States. The APA's primary mission is to educate its members and the payroll industry regarding best practices associated with paying America's workers while complying with applicable federal, state, and local laws. In addition, the APA's Government Relations Task Force (GRTF) works with the legislative and executive branches at the federal and state level to find ways to help employers satisfy their legal obligations, while minimizing the administrative burden on government, employers, and individual workers. The GRTF maintains a close relationship with the IRS so that APA members receive the latest guidance concerning federal tax law changes and in turn APA members may provide feedback to the IRS.

Importance of Fully Funding the IRS

The importance of the IRS to the tax system cannot be overstated. The IRS serves as the nation's tax collector and is charged with enforcing a system based on voluntary compliance. The IRS recently adopted the Taxpayer Bill of Rights, which includes the right to be informed and the right to quality service.¹ Without proper funding, these rights may be jeopardized. Public perception that tax laws are administered fairly is paramount in a system dependant on voluntary compliance. Severe cuts to the enforcement budget may undermine perceived fairness.

The Right to Be Informed and the Right to Quality Service

The IRS describes the right to be informed as "the right to know what they [taxpayers] need to do to comply with the tax laws."² The right to quality service involves, "the right [for taxpayers] to receive prompt, courteous, and professional assistance in their dealings with the IRS."³ Cuts to the IRS budget seriously threaten these rights. The 2013 National Taxpayer Advocate's Report to Congress cites numerous examples of cuts to services that limit the IRS's ability to keep taxpayers informed. Examples include a reduction in the IRS training budget (down 85% compared to 2009⁴); a reduced ability to answer taxpayer questions (in FY 2013 IRS employees were able to answer only 61% of the phone calls received from taxpayers⁵), and a reduction in

¹ "Taxpayer Bill of Rights," last updated June 9, 2014, <http://www.irs.gov/Taxpayer-Bill-of-Rights>.

² Ibid.

³ Ibid.

⁴ "Reductions in IRS Employee Training," National Taxpayer Advocate 2013 Report to Congress, <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/training-reductions/>.

⁵ "IRS Budget Cuts Diminish Tax Service," National Taxpayer Advocate 2013 Report to Congress, <http://www.taxpayeradvocate.irs.gov/2013-Annual-Report/budget-cuts/>.

full time equivalent staff (about 8% from FYs 2010-2013⁶). Further reductions in the IRS budget may exacerbate these problems.

The IRS travel budget, which understandably has been scrutinized in recent years, is an item that directly affects the IRS's ability to inform taxpayers of new changes to the tax law. It is vital both for the IRS and for our members to interact with and learn from one another at our educational events. This is a budget item that should be fully funded.

Enforcement

For a system based on voluntary compliance to succeed, taxpayers must believe that the system is administered fairly. Whether real or perceived, taxpayers may question the fairness of the system when headlines announce a 25% cut to the enforcement budget. With fewer personnel and audits, revenue will almost assuredly decrease. If taxpayers fail to voluntarily comply with their filing requirements, the problem will only get worse. At a recent presentation to the National Society of Accountants, IRS Commissioner Koskinen stated that, "a 1 percent drop in compliance could cost the Treasury \$30 billion a year."⁷

Combating Identity Theft and Implementing New Initiatives

To administer the tax system, the IRS must be in a position to react to new and developing issues. The IRS will need to devote resources to implement new legislative mandates such as the Foreign Account Tax Compliance Act (FATCA) and to continue its fight against the growing problem of identity theft. In April, the IRS stated that, "direct investigative time applied to identity theft related investigations has increased 216 percent over the last two years."⁸ Further, investigations related to identity theft increased by 66 percent between the FYs 2012 and 2013.⁹ Adequate funding of the IRS is necessary so that it can successfully deal with new and emerging issues.

⁶ National Taxpayer Advocate, 2013 Annual Report to Congress, p. 21.

⁷ House IRS Budget Could Be 'Catastrophic in 2015, Koskinen Says, *Tax Notes Today*, August 22, 2014.

⁸ IRS Intensifies Work on Identity Theft and Refund Fraud; Criminal Investigation Enforcement Actions Underway Across the Nation, IR-2014-50, April 10, 2014, <http://www.irs.gov/uac/Newsroom/IRS-Intensifies-Work-on-Identity-Theft-and-Refund-Fraud;-Criminal-Investigation-Enforcement-Actions-Underway-Across-the-Nation>

⁹ Ibid

Conclusion

While the APA understands the tight budgetary constraints throughout the federal government, adequately funding the IRS must be a priority. The IRS needs to provide accurate and timely information to taxpayers while also enforcing the nation's tax laws. To do this effectively, the IRS needs to be properly funded.

Thank you for your consideration,

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