Larry's Tax Law

The IRS Continues to Face Severe Budget Cuts-What Does this Mean to Tax Advisors and Their Clients?

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As reported in my January 21, 2014 blog post, federal budget cuts continue to hit the IRS hard. In the Consolidated Appropriations Act of 2014, our lawmakers cut the Service's budget by more than $500 million. The Continuing Appropriations Resolution, 2015, signed by President Obama on September 19, 2014, gave the Service about a $350 million budget setback.

While it is hard to debate the need for government budget cuts these days, deciding where to make the cuts is surely a difficult endeavor. Nevertheless, perplexing as it may be, lawmakers find it necessary and appropriate to cut the funding of the IRS, a division of our government that collects revenue. Making these budget decisions even more baffling, we currently have an annual tax gap in this country of over $450 billion. Adequately funding the IRS so that it can enforce our tax laws, thereby reducing the annual tax gap, should be a given. Apparently, it is not a given to our lawmakers.

Of interesting note, the annual tax gap has increased by approximately $150 billion since 2001. Yet, the IRS has had its budget slashed by over $1 billion in the last five (5) years.

According to IRS Commissioner John Koskinen, the funding of the IRS this fiscal year ending September 30 is back to the 2008 funding level. He suggests the results will be felt by taxpayers and tax advisors, including:

- At least 46,000 fewer business and individual audits will conclude this fiscal year;
- Taxpayers will encounter about a thirty (30) minute wait when calling a service center to reach an IRS representative;
- 3,000 to 4,000 IRS employees will lose their jobs and there is the possibility that employee furlough days will be implemented this fiscal year, reducing the ability of the IRS to provide taxpayer service;
- Approximately 280,000 or more fewer collections will be made this fiscal year;

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- IT systems will not be replaced or updated this fiscal year as scheduled; and
- Implementation of taxpayer identification theft protections will have to be delayed until a future fiscal year.

Commissioner Koskinen predicts these most recent IRS budget cuts will ultimately result in a loss of $2 billion or more in tax revenue that would have otherwise been collected this fiscal year. WOW!

These budget cuts remind me of a story I heard about a top salesperson who worked for a successful manufacturer and was consistently responsible for the vast majority of the company's sales. He was paid solely on a commission basis that was industry standard. One day, a new CEO was hired. Shortly thereafter, the CEO called the salesperson into his office and advised him that he was cutting his commission by 30% because the salesperson was making too much money. In fact, the salesperson was making more than the new CEO. What followed? The salesperson terminated his employment with the company and went to work for a competitor. Sales plummeted! Like cutting a successful salesperson's commission, it defies logic to cut the budget of a revenue-generating branch of the government. Time will tell if Commissioner Koskinen's predictions will become a reality. It seems certain the budget cuts will result in:

- Lower tax collections; thereby negatively impacting any chances of reducing the tax gap;
- Less taxpayer service; and
- Prolonged examination and appeal processes due to IRS staffing challenges.

Taxpayers and tax advisors will need to be patient in their encounters with the IRS. The Service's ability to carry out its mission-to provide "taxpayers top quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness to all" has been significantly hindered by the budget cuts.

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