Congressional Budget Office
Nonpartisan Analysis for the U.S. Congress

How Changes in Funding for the IRS Affect Revenues

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Summary

The Internal Revenue Service's (IRS's) budget funds various activities that directly and indirectly affect the amounts of revenues it collects. Historically, the IRS's funding has primarily been discretionary—that is, the agency has mostly been funded through annual appropriation acts. Through 2031, however, the agency's activities are also supported by nearly $80 billion in mandatory funding provided in the 2022 reconciliation act (Public Law 117-169).

In this report, the Congressional Budget Office describes how funding for the IRS affects CBO's baseline projections of revenues and how CBO estimates the revenue effects of rescissions of such funding. (Rescissions are provisions of law that cancel budget authority previously provided before it is scheduled to expire.) In addition, the agency estimated the budgetary effects over the next 10 years of three illustrative options that would rescind varying amounts of the IRS's mandatory funding:

- A $5 billion rescission would reduce revenues by $5.2 billion over the 2024–2034 period and increase the cumulative deficit for that period by $0.2 billion.
- A $20 billion rescission would reduce revenues by $44 billion and increase the cumulative deficit by $24 billion.
- A $35 billion rescission would reduce revenues by $89 billion and increase the cumulative deficit by $54 billion.

In CBO's assessment, the IRS would respond to a rescission by maintaining its planned spending in the near term and reducing outlays in the final years before the budget authority expires. CBO also expects that the IRS would first curtail enforcement activities that, in its view, will have the lowest average return. Thus, the revenue reduction per dollar rescinded would be larger for a $20 billion rescission than it would be for a $5 billion one and even larger for a $35 billion rescission.

How Does the IRS's Spending Affect CBO's Baseline Projections of Revenues?

The IRS engages in various activities—including answering taxpayers' questions, conducting audits, and collecting unpaid taxes—that affect the amounts of revenues collected. Therefore, each time CBO updates its projections of revenues, it makes adjustments to reflect its projections of the IRS's spending on those activities and of that spending's effects on the collection of revenues.

The IRS's funding, which has traditionally been discretionary and thus provided through annual appropriations, is directed to four accounts: taxpayer services, enforcement, operations support, and business systems modernization. The 2022 reconciliation act provided $79.6 billion of *mandatory* funding to the IRS that is available for the agency to obligate through 2031.[1] Of that funding, $45.6 billion was designated for enforcement; $25.3 billion, for operations support; $3.2 billion, for taxpayer services; and $4.8 billion, for business systems modernization.[2] The Fiscal Responsibility Act of 2023 (FRA, P.L. 118-5) subsequently rescinded $1.4 billion of that mandatory funding that had not yet been obligated.

1. Mandatory spending is generally governed by statutory criteria and is not normally constrained by the annual appropriation process.

2. The 2022 reconciliation act also provided $0.7 billion in funding outside the four main IRS accounts to support an IRS-run direct e-file program, the Treasury Inspector General for Tax Administration, the Office of Tax Policy, the U.S. Tax Court, and departmental offices within the Treasury. Funding outside the four main accounts does not affect CBO's revenue projections.

Note: Unless this report indicates otherwise, all years referred to are federal fiscal years, which run from October 1 to September 30 and are designated by the calendar year in which they end.

Table 1.

CBO's February 2024 Baseline Projections of the IRS's Outlays, by Budget Account

Millions of dollars

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total, 2024–2034
Discretionary												
Taxpayer services	2,766	2,888	2,999	3,107	3,216	3,326	3,439	3,557	3,677	3,802	3,935	36,712
Enforcement	4,757	4,983	5,176	5,366	5,555	5,747	5,945	6,150	6,361	6,581	6,812	63,433
Operations support	4,060	4,163	4,280	4,397	4,514	4,634	4,755	4,882	5,011	5,145	5,283	51,124
Business systems modernization	52	14	0	0	0	0	0	0	0	0	0	66
Subtotal	11,635	12,048	12,455	12,870	13,285	13,707	14,139	14,589	15,049	15,528	16,030	151,335
Mandatory												
Taxpayer services	777	784	671	0	0	0	0	0	0	0	0	2,232
Enforcement	711	1,624	3,043	4,196	5,580	7,545	9,594	11,851	0	0	0	44,144
Operations support	2,381	2,802	3,277	3,564	3,783	3,313	2,671	2,374	0	0	0	24,165
Business systems modernization	1,094	1,024	1,025	926	177	0	0	0	0	0	0	4,246
Subtotal	4,963	6,234	8,016	8,686	9,540	10,858	12,265	14,225	0	0	0	74,787
Total	**16,598**	**18,282**	**20,471**	**21,556**	**22,825**	**24,565**	**26,404**	**28,814**	**15,049**	**15,528**	**16,030**	**226,122**

Data source: Congressional Budget Office. See www.cbo.gov/publication/59972#data.

IRS = Internal Revenue Service.

CBO's current baseline projections reflect the mandatory funding provided by the 2022 reconciliation act and partially rescinded by the FRA as well as the assumption that discretionary funding will grow with inflation from the annualized amount provided for 2024 as of January 3, 2024 ($11.6 billion). In those projections, outlays for the IRS increase from $16.6 billion in 2024 to $28.8 billion in 2031 as the agency uses its mandatory funding and then drop to $15.0 billion in 2032 after that budget authority expires (see Table 1).[3]

CBO takes into consideration the total resources available to the IRS as well as the allocation among the four accounts when preparing its baseline revenue projections. In CBO's assessment, rates of voluntary tax compliance are largely stable over the projection period, but changes in the IRS's resources affect revenues from enforcement activities and revenues from back taxes (taxes paid on a liability from a prior year). Enforcement activities—which are supported primarily by funding from the enforcement and operations support accounts—generate revenues directly, by resulting in the collection of unpaid taxes, and indirectly, by increasing audited individuals' voluntary tax payments in subsequent years.

What Changes Has CBO Made to Its Projections of Revenues From the IRS's Activities?

CBO incorporates new information about voluntary compliance and the IRS's actual and planned outlays when it updates its baseline projections. CBO's February 2024 projections reflect new information about the following:

- **Actual outlays for enforcement.** Outlays for enforcement activities in 2023 were less than projected. Most of the expenditures from the enforcement account stem from labor costs, and through 2023, the IRS hired fewer revenue agents (the enforcement staff who handle complex audits) than it had planned.[4] That shortfall suggests that the IRS has encountered greater difficulty in hiring auditors than it anticipated. CBO expects that the IRS will be able to use all the mandatory funding that it designated for hiring in later years, but because of the delays in hiring and training new auditors, revenue collections from enforcement activities are smaller in CBO's February 2024 projections than they were in its previous projections.

3. Congressional Budget Office, *The Budget and Economic Outlook: 2024 to 2034* (February 2024), www.cbo.gov/publication/59710.

4. Treasury Inspector General for Tax Administration, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers* (August 2023), https://tinyurl.com/5b9xeard.

- **Compliance by audited taxpayers.** Recent research has found that for about 10 years after an audit, audited individuals' voluntary tax payments are larger than those of taxpayers with similar incomes who were not audited.[5] On the basis of those findings, CBO has increased its projections of revenues stemming from enforcement activities to reflect larger voluntary payments.[6] A portion of the increase in voluntary payments is projected to be collected after the projection period considered here ends in 2034.
- **The IRS's updated plans.** The mandatory funding provided to the IRS in the 2022 reconciliation act is available through 2031, and the agency has discretion over when that money is spent. In April 2023, the IRS released a plan for spending that mandatory funding.[7] On the basis of its understanding of that plan and its assessment of how it might be implemented, CBO projects that more of the mandatory funding in all accounts other than the enforcement account will be spent in the near term than the IRS indicated in its previous plan and that mandatory funding in some accounts will be exhausted before 2031.
- **Updated estimates of the tax gap.** The IRS recently released a new report about the tax gap—the difference between the total amount of federal taxes owed and the amount paid by the filing deadline.[8] According to that report, from 2001 to 2021 (the most recent year for which estimates of the tax gap are available), the estimated rate of voluntary tax compliance hovered between 82 percent and 85 percent. That finding is consistent with the expectation underlying CBO's baseline revenue projections that voluntary compliance will remain largely stable through 2034.

5. William C. Boning and others, *A Welfare Analysis of Tax Audits Across the Income Distribution*, Working Paper 31376 (National Bureau of Economic Research, June 2023), www.nber.org/papers/w31376.

6. The Department of the Treasury recently updated its estimate of revenues from the increased compliance of audited taxpayers. See Department of the Treasury, *Estimating Specific Deterrence Revenue From Additional Audits of High-Income and High-Wealth Individuals* (February 2024), https://tinyurl.com/4d3ts2fn (PDF).

7. Internal Revenue Service, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan, FY2023–2031* (April 2023), www.irs.gov/pub/irs-pdf/p3744.pdf.

8. Internal Revenue Service, *Federal Tax Compliance Research: Tax Gap Projections for Tax Years 2020 and 2021* (October 2023), www.irs.gov/pub/irs-pdf/p5869.pdf.

What Are the Sources of Uncertainty in CBO's Projections?

Various factors contribute to the uncertainty of CBO's estimates of the effects on revenue collections of the amount of funding for the IRS.[9]

- **Staffing.** The IRS plans to use its mandatory funding to hire a significant number of revenue agents with private-sector experience in accounting and financial services. The pace of hiring and skill set of new hires will affect when revenues can be generated. Experienced employees provide training to new hires, so if experienced employees retire before new employees are hired, training could be less effective. In addition, if new hires require more training than expected, their productivity will ramp up more slowly than anticipated. Also, the time that experienced employees devote to training is not available for enforcement activities.
- **Interaction between different streams of funding.** The IRS is expected to continue to receive discretionary funding in annual appropriation acts in addition to the mandatory funding provided by the 2022 reconciliation act. Lawmakers allocate both types of funding to the IRS's four budget accounts. CBO constructs its baseline under the assumption that discretionary funding will continue at current funding levels, adjusted for inflation. If discretionary funding provided in appropriation acts in future years differs from the amounts in CBO's baseline projections, the IRS may alter how it uses its mandatory funding, and CBO would, in turn, change its projections of outlays stemming from that mandatory funding. In addition, in CBO's projections, the mandatory funding for taxpayer services and for the modernization of the IRS's business systems is exhausted before 2031; how the reduction in spending on taxpayer services and business systems would affect revenue collections resulting from enforcement activities is uncertain.[10]

9. For additional discussion of sources of uncertainty, see Congressional Budget Office, *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020), www.cbo.gov/publication/56422.

10. Changes in how the IRS uses information technology, taxpayer notices, and other initiatives related to compliance and enforcement could yield revenue amounts that are smaller or larger than CBO estimates. See Internal Revenue Service, *Return on Investment: Re-examining Revenue Estimates for IRS Funding* (February 2024), www.irs.gov/pub/irs-pdf/p5901.pdf.

- **Expiration of mandatory funding.** The mandatory funding provided by the 2022 reconciliation act is available for the IRS to obligate through 2031. Under current law, after that budget authority expires, the IRS's spending could not exceed its discretionary funding. In CBO's assessment, a portion of the revenues generated directly from enforcement activities paid for with the mandatory funding will be collected after 2031. With less funding, such collections would be smaller, but how much smaller is uncertain. Voluntary tax payments from previously audited taxpayers are, in CBO's estimation, less likely to be affected by the expiration of funding. It is unclear how the IRS's hiring and enforcement activities will be affected as the scheduled expiration date approaches.
- **Additional changes to tax law.** The IRS administers tax laws and assists taxpayers with filing accurate returns. Changes in tax laws or the assignment of new responsibilities to the IRS could divert resources from enforcement activities because the IRS may need to educate taxpayers and train examiners (the employees who detect taxpayers' noncompliance) to inform them of new provisions. Those new activities could increase demands on customer service agents who also respond to calls about enforcement notices and on staff who provide training. The IRS might also need to collect and process additional information to properly determine taxpayers' tax liability.
- **Varying estimates of compliance by audited taxpayers.** The Treasury Secretary directed the IRS to use the mandatory funding designated for enforcement activities to focus on high-income taxpayers, large corporations, and partnerships.[11] Published estimates of the increase in compliance of individual taxpayers in the top income groups after an audit vary widely, most likely because of rare cases in which a particular audit results in a very large amount of revenues collected. Moreover, past research on corporations' compliance following an audit found that they reduce their reported tax liability as a share of income immediately following an audit.[12]

11. Department of the Treasury, "Secretary of the Treasury Janet L. Yellen Sends Letter to IRS Commissioner in Support of Funding for IRS to Improve Taxpayer Service and Combat Evasion by High Income Earners and Corporations" (press release, August 10, 2022), https://home.treasury.gov/news/press-releases/jy0918.

12. Jason DeBacker and others, "Legal Enforcement and Corporate Behavior: An Analysis of Tax Aggressiveness After an Audit," *Journal of Law and Economics*, vol. 58, no. 2 (May 2015), pp. 291–324, https://doi.org/10.1086/684037.

How Does CBO Estimate the Revenue Effects of Changes in the IRS's Funding?

CBO's estimates of how legislation altering the IRS's funding would affect revenues are based on the IRS's projected returns on investment (ROIs) for spending on new enforcement initiatives.[13] The IRS estimates ROI factors, which it typically provides as part of its budget justification, by calculating the expected revenues that would be raised from taxes, interest, and penalties as a result of the new initiatives and dividing them by their additional cost. The IRS's estimated ROIs from an increase in funding rise over three years as new staff are trained and become fully productive; the ROIs then remain at that peak level. In the agency's budget justifications for 2016 to 2022, peak ROIs ranged from 5 to 9—that is, the IRS estimated that at its most productive, $1 of spending on enforcement activities would result in $5 to $9 in revenues over time.

In CBO's assessment, the ROI estimates in the IRS's budget justifications more closely reflect the changes in revenues that would be expected from small expansions of existing activities than those that might be expected from a much larger increase in the IRS's resources. CBO therefore adjusts the IRS's estimates so that they better reflect the marginal return (that is, the return on each additional dollar spent) on significant additional spending. That assessment reflects several factors:

- Because CBO anticipates that the IRS would prioritize the enforcement activities that it expects would have the highest average return, the marginal return on spending for enforcement declines in CBO's projections.
- CBO expects that taxpayers would adjust their behavior over time to avoid the new enforcement activities, so any given enforcement initiative would have a smaller return in later years. The agency expects that the IRS would change its enforcement

13. For recent estimates of the effects on revenues of rescissions of the IRS's funding, see Congressional Budget Office, estimated budgetary effects of the Israel Security Supplemental Appropriations Act, 2024 (November 1, 2023), www.cbo.gov/publication/59719, letter to the Honorable Sheldon Whitehouse providing additional information on the estimate of rescinding funding for tax enforcement (October 17, 2023), www.cbo.gov/publication/59663, letter to the Honorable Kevin McCarthy providing CBO's estimate of the budgetary effects of H.R. 3746, the Fiscal Responsibility Act of 2023 (May 30, 2023), www.cbo.gov/publication/59225, letter to the Honorable Jodey Arrington providing CBO's estimate of the budgetary effects of H.R. 2811, the Limit, Save, Grow Act of 2023 (April 25, 2023), www.cbo.gov/publication/59102, and estimated budgetary effects of H.R. 23, the Family and Small Business Taxpayer Protection Act (January 9, 2023), www.cbo.gov/publication/58894.

activities in response to taxpayers' actions, but in CBO's assessment, taxpayers are able to respond more quickly.

- The productivity of the IRS's enforcement activities will depend on the IRS's other capabilities. For example, modernized information technology that stores additional taxpayer information in digital form could increase the productivity of examiners.

In addition to revenues arising directly from enforcement activities, CBO also incorporates in its estimates revenues from a general increase in voluntary compliance among all taxpayers (who perceive a greater chance of being audited) and a specific increase among audited individuals (who tend to make larger tax payments in years after their audit than they would have made otherwise). Historically, the IRS has not included such indirect effects in its estimates of ROIs.

CBO's estimate of revenues also accounts for the timing of collections resulting from enforcement activity by new hires. Taxes are assessed at the end of an audit; if taxpayers disagree with the assessment, they can appeal and litigate. The time that each step takes depends on the complexity of the case. The process takes longer when cases are more complex or when the taxpayer disagrees with the assessment and appeals it.

In accordance with budgetary scorekeeping guidelines, estimated reductions in receipts that result from a decrease in mandatory funding are included in estimates of the budgetary effects of legislation.[14] However, increases in receipts that could occur from increased funding for administrative or program management activities are excluded when estimating the budgetary effects of legislation that would provide additional mandatory funding for such activities. After legislation that changes funding for the IRS is enacted, CBO includes all the budgetary effects in its baseline budget projections.

Estimated Budgetary Effects of Three Illustrative Options

To illustrate the impact on the deficit of reducing the mandatory funding provided to the IRS, CBO estimated the effects of rescinding $5 billion, $20 billion, or $35 billion.[15] Those examples are intended to illustrate how the size of the rescission would affect the timing of outlays and revenues. (For more information about how CBO estimated the revenue effects of the three illustrative options, see Box 1.)

CBO expects that the IRS would maintain its near-term spending and reduce outlays in 2031 (the last year in which the mandatory funding is available) first, 2030 next, and so on, until outlays were fully reduced by the amount rescinded.[16] Backloading the rescission in that manner would reduce spending from the accounts with funds remaining in 2031: the enforcement and operations support accounts. All estimates are based on the rescission's taking effect on March 1, 2024, and reflect the change—relative to CBO's February 2024 baseline projections—in outlays, revenues, and the deficit over the 2024–2034 period.

The revenue loss per dollar rescinded varies by the size of the rescission because, in CBO's assessment, the IRS would curtail the enforcement activities with the lowest estimated ROIs first when faced with a reduction in resources. The enforcement activities that the IRS ended following a $5 billion rescission would have lower estimated ROIs than those that the agency would curtail in response to a $20 billion or $35 billion rescission. In addition, because the years in which outlays would be reduced by the rescission vary under the three options, different portions of the resulting loss in revenues would occur after the projection period ends in 2034.

14. The pertinent guideline is guideline 14. For more information about the guidelines, see Congressional Budget Office, *CBO Explains Budgetary Scorekeeping Guidelines* (January 2021), www.cbo.gov/publication/56507. For more discussion about how CBO estimates the effects of rescissions, see Congressional Budget Office, *CBO Explains How It Estimates Savings From Rescissions* (May 2023), www.cbo.gov/publication/58915.

15. These options are consistent with the rescission included in the FRA in that they would rescind funds available in multiple IRS budget accounts.

16. CBO's previous estimates of the effects on revenues of rescissions of mandatory funding reflected the expectation that the IRS would maintain the mix of enforcement activities it intended to pursue and proportionally reduce outlays in all remaining years. Applying the rescission only to the final years with budget authority would be consistent with the IRS's statements about how it would implement a rescission of mandatory funding. See Department of the Treasury, "U.S. Department of the Treasury, IRS Release New Analysis Showing the High Return on Investment From Inflation Reduction Act Resources" (press release, February 6, 2024), https://tinyurl.com/49u9tn24. CBO estimates that if the IRS proportionally reduced outlays in all years instead of backloading the rescission, the revenue reduction over the 2024–2034 period from a $5 billion rescission would be about twice as large, and the revenue reduction over that period from a $20 billion or $35 billion rescission would change only slightly.

Box 1.

Additional Information About How CBO Estimated the Revenue Effects of the Illustrative Options for Rescinding Some of the IRS's Mandatory Funding

To estimate the revenue effects of the three illustrative options discussed in this report that would rescind mandatory funding for the Internal Revenue Service (IRS), the Congressional Budget Office used a benchmark estimate of the return on investment (ROI) from the IRS's spending on enforcement activities.[1] That benchmark ROI is currently 6.4. If the actual ROI equaled that benchmark, a $1 increase in spending on the IRS's enforcement activities would result in a total of about $6.40 in additional revenues over multiple years, on average. The benchmark ROI is based on the IRS's projected ROIs for spending on new enforcement initiatives and is adjusted to reflect CBO's assessment that the IRS will primarily use the additional funding to increase enforcement activities focused on high-income taxpayers and corporations. CBO further adjusts the benchmark ROI to account for several factors.[2]

Diminishing Marginal Returns. CBO expects the IRS to prioritize enforcement activities that, in its view, will have the highest average ROI; additional enforcement spending would therefore result in progressively smaller returns. In addition, hiring and training qualified revenue agents will, in CBO's assessment, become more difficult as the IRS expands. Thus, in CBO's estimates, the ROI drops by 10 percent for every 10 percent increase in spending for enforcement and related activities over a base amount of about $10 billion. (That base amount is 10 percent more than total discretionary spending for enforcement and operations support in 2024 in CBO's baseline projections.)

Taxpayers' Adaptive Behavior. CBO expects that as the IRS increases its enforcement activities and implements new initiatives, taxpayers will adapt and develop new strategies for evading detection. In CBO's estimates, the ROI decreases by 3 percent each year after 2026 to reflect such changes in taxpayers' behavior.

The IRS's Spending in Other Areas. The productivity of the IRS's enforcement activities will, in CBO's assessment, depend in part on the IRS's customer service and information technology capabilities. Thus, in CBO's estimates, the ROI grows by 5 percent for every 8 percent increase in spending on taxpayer services and the modernization of the IRS's business systems over a base amount, which is about $3 billion. (That base amount is 8 percent more than discretionary spending for taxpayer services and business systems modernization in 2024 in CBO's baseline projections.)

Taxpayers' Voluntary Compliance. CBO expects that in response to the IRS's increasing its enforcement activities, some individuals will increase their voluntary tax payments. The effect is largest among audited taxpayers, who are expected to increase their payments after an audit. In CBO's estimates, in the years following a field audit—generally, an in-person audit at a taxpayer's home or place of business—audited individuals increase their voluntary tax payments by an average of about 20 percent of the tax collected as a result of the audit. CBO's benchmark ROI reflects the expectation that some people who have not been audited will also modestly increase their tax payments. Voluntary compliance among corporate taxpayers remains constant in CBO's estimates.

Other Factors. In CBO's estimates, ROIs ramp up over three years as new IRS staff are trained and become fully productive: Returns are roughly 25 percent of the benchmark ROI in the first year, about 75 percent of the benchmark in the second, and 100 percent of the benchmark in the third. In addition, when its mandatory funding is no longer available, the IRS would, in CBO's assessment, need to either prematurely close audits or initiate fewer enforcement activities. Thus, after that funding is exhausted, CBO expects the IRS to collect about half the revenues from previously initiated enforcement activities that it would have collected if that funding remained available.

1. For a discussion of the effects on revenues of increases in funding for the IRS, see Congressional Budget Office, letter to the Honorable Kevin Brady and the Honorable Jason Smith providing additional information about increased enforcement by the Internal Revenue Service (August 25, 2022), www.cbo.gov/publication/58390, letter to the Honorable Lindsey Graham providing estimated revenue effects of increased funding for the Internal Revenue Service in H.R. 5376, the Build Back Better Act (November 18, 2021), www.cbo.gov/publication/57620, and "The Effects of Increased Funding for the IRS," *CBO Blog* (September 2, 2021), www.cbo.gov/publication/57444.

2. For a discussion of factors that CBO considers when estimating the revenue effects of legislation aimed at increasing taxpayers' compliance, see Janet Holtzblatt and Jamie McGuire, *Factors Affecting Revenue Estimates of Tax Compliance Proposals*, Working Paper 2016-05 (Congressional Budget Office, November 2016), www.cbo.gov/publication/52199.

Table 2.

Estimated Budgetary Effects of Three Illustrative Options for Rescinding Some of the IRS's Mandatory Funding

Millions of dollars

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total, 2024–2034
						Rescind $5 billion						
Change in mandatory outlays	0	0	0	0	0	0	0	-5,000	0	0	0	-5,000
Change in revenues	0	0	0	0	0	0	0	-3,415	-874	-510	-384	-5,184
Increase or decrease (-) in the deficit	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**-1,585**	**874**	**510**	**384**	**184**
						Rescind $20 billion						
Change in mandatory outlays	0	0	0	0	0	0	-5,775	-14,225	0	0	0	-20,000
Change in revenues	0	0	0	0	0	0	-5,232	-27,530	-5,174	-3,203	-2,470	-43,609
Increase or decrease (-) in the deficit	**0**	**0**	**0**	**0**	**0**	**0**	**-543**	**13,305**	**5,174**	**3,203**	**2,470**	**23,609**
						Rescind $35 billion						
Change in mandatory outlays	0	0	0	0	0	-8,510	-12,265	-14,225	0	0	0	-35,000
Change in revenues	0	0	0	0	0	-10,837	-27,576	-32,055	-8,251	-5,798	-4,696	-89,213
Increase or decrease (-) in the deficit	**0**	**0**	**0**	**0**	**0**	**2,328**	**15,310**	**17,830**	**8,251**	**5,798**	**4,696**	**54,213**

Data source: Congressional Budget Office. See www.cbo.gov/publication/59972#data.

IRS = Internal Revenue Service.

Effects of a $5 Billion Rescission

CBO estimates that a $5 billion reduction in outlays in 2031 would reduce revenues from 2031 to 2034 by a total of $5.2 billion, adding a total of $0.2 billion to deficits over the 2024–2034 period (see Table 2).

A $5 billion reduction applied to the enforcement and operations support accounts (the two accounts that provide most of the support for enforcement activities) at the end of the period in which the mandatory funding is available would curtail enforcement activity in 2031. The total estimated effect on deficits from 2024 to 2034 is small because it reflects the expectation that, when planning enforcement activities after a rescission of its mandatory funding, the IRS would end the activities for which it estimates a lower marginal ROI first to focus on the initiatives that generate the most revenues. Moreover, nearly 20 percent of the revenue reduction resulting from the decrease in enforcement activity would occur after the projection period ends and thus is not reflected in CBO's revenue estimates.

Effects of a $20 Billion Rescission

CBO estimates that a $20 billion rescission would reduce outlays in 2030 and 2031 and lower revenues from 2030 to 2034 by a total of $43.6 billion, adding a total of $23.6 billion to deficits over the 2024–2034 projection period.

This option would rescind four times as much funding as the first option, but the revenue loss during the projection period would be more than eight times that of the first option. Given the expectation that the IRS would prioritize enforcement activities with the highest ROI, CBO estimates that a larger rescission would end activities with a higher ROI than those that a smaller rescission would end. This option would also reduce enforcement activity sooner than a $5 billion rescission would, which would cause more of the estimated revenue reduction to occur during the projection period.

In addition, the indirect effect of reduced enforcement activities in 2030 and 2031 would result in revenue collections from audited taxpayers that were less than they would otherwise be. Moreover, 15 percent of the revenue reduction resulting from the decrease in enforcement activity would occur after the projection period ends and thus is not reflected in CBO's estimate for 2024 to 2034.

Effects of a $35 Billion Rescission

CBO estimates that a rescission of more than 40 percent of the mandatory funding provided in the 2022 reconciliation act would reduce outlays in 2029, 2030, and 2031 and lower revenues from 2029 to 2034 by $89.2 billion, adding $54.2 billion to deficits over the 2024–2034 period.

A rescission of $35 billion would significantly curtail enforcement activity in 3 years of the projection period. It would end initiatives with higher estimated ROIs than those that a $5 billion or $20 billion rescission would end, and the reduction in enforcement activity would begin sooner—in 2029. Curtailing enforcement activity earlier in the period would lower the estimated revenue gains from increased compliance by audited taxpayers, because fewer taxpayers would be audited. Under this option, 15 percent of the revenue reduction resulting from the decrease in enforcement activity would occur after the projection period ends and thus is not reflected in CBO's estimate for 2024 to 2034.

About This Document

This report was prepared at the request of the Chairman of the Senate Budget Committee. In keeping with the Congressional Budget Office's mandate to provide objective, impartial analysis, the report makes no recommendations.

Kathleen Burke and Shannon Mok prepared the report with guidance from John McClelland, Joseph Rosenberg, and Joshua Shakin. Christina Hawley Anthony and Tamara Hayford provided comments. Eshika Kaul fact-checked the report. Jeffrey Kling and Robert Sunshine reviewed it, Bo Peery edited it, and R. L. Rebach created the tables and prepared the text for publication. This report is available at www.cbo.gov/publication/59972. CBO seeks feedback to make its work as useful as possible. Please send comments to communications@cbo.gov.

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