

June 23, 2011

Additional Information on the Program Integrity Initiative for the Internal Revenue Service in the President's Budgetary Proposals for Fiscal Year 2012

The Congressional Budget Office, along with staff of the Joint Committee on Taxation (JCT), has analyzed the budgetary impacts of the proposal in the President's budget for fiscal year 2012 to increase Internal Revenue Service (IRS) appropriations by \$13 billion over the next decade to fund initiatives to enhance tax compliance. The Administration estimated that the proposal would increase revenues by \$56 billion over the 2012–2021 period. Using information from the President's budget and additional information provided by the IRS, CBO and JCT estimate that the proposed increase in IRS appropriations would increase revenues above CBO's baseline projection by about \$42 billion over the 2012–2021 period. For Congressional scorekeeping purposes, those additional revenues would not be counted as an offset to such spending pursuant to Congressional scorekeeping guidelines. The following sections provide details about the proposal, the estimated effects on revenues, and the Congressional scorekeeping rules regarding the estimated increases in revenues.

Proposal. The President's budget includes a proposal to provide additional spending for enforcement and compliance activities of the IRS. The proposal encompasses a five-year ramp-up in enforcement spending, relative to baseline amounts, beginning with an additional roughly \$240 million in fiscal year 2012 for enforcement and compliance initiatives, including actions targeted at improving tax compliance among individuals and businesses with international transactions, expansions of collection activities, implementation of new information-reporting requirements, and improvements in the delivery of tax credits. The President proposes to continue the 2012 initiatives over the 10-year budget window, along with additional, unspecified initiatives instituted over the next four years that would also continue throughout the budget period. The net effect would be a ramping up of spending on enforcement and compliance through 2016—reaching an added \$1.7 billion in that year, and then a continuation of that spending level in subsequent years.

In its *Analysis of the President's Budgetary Proposals for Fiscal Year 2012* (April 2011), CBO provided estimates of the impact on federal spending from the President's other program integrity adjustments, which called for increased appropriations for the administration of benefits for Social Security's Disability Insurance program, Medicare, Medicaid, Supplemental Security Income, and unemployment insurance.¹ At that time, CBO had not completed an estimate of the impact of the proposed IRS program integrity funding.

¹ In total, CBO estimated that those program integrity savings would total about \$22 billion over the 2012-2021 period if increased administrative funding was provided, as requested in the President's budget for fiscal year 2012, for continuing disability reviews related to Disability Insurance and Supplemental Security Income programs, for program integrity activities of the Department of Health and Human Services (for both the Medicare and Medicaid programs), and for continued eligibility reviews of unemployment compensation beneficiaries. Those savings would accrue if increased funding was provided for all years from 2012 through 2021, as called for in the President's budget. (As is the case with the IRS funding proposal, the estimated savings for those programs cannot be counted for Congressional scorekeeping purposes under the scorekeeping guidelines established by the Congress. See the subsequent discussion on "Congressional Scorekeeping.")

Estimating Assumptions. For the IRS enforcement activities proposed to begin in 2012, CBO and JCT project the same initial return on investment (that is, the revenue yield over multiple years per additional dollar of spending) as estimated by the Administration: The return on investment for the 2012 initiative is estimated to be 3 to 1 in 2012 and is projected to rise to 6 to 1 by 2014, resulting in part from anticipated increases in the productivity of the newly hired enforcement staff.² (A portion of the additional revenue would be received beyond the 10-year budget window.)

However, for those initiatives in later years and especially for the IRS initiatives that would begin after 2012, CBO and JCT generally estimate a lower return on investment than the Administration expects. (The Administration did not provide any details on the new initiatives that would go into effect over the 2013–2016 period.) CBO and JCT anticipate that the return on added spending would decline over time, largely reflecting the expectation that the most productive sources of revenue would be addressed first and that the IRS would not be able to maintain the same return as spending was ramped up. Thus, the return on investment for the 2016 initiative is assumed to be 4 to 1 (some of which would be received after 2021). Largely as a result of those judgments, CBO estimates that \$13 billion in additional spending over the 2012–2021 period would yield \$42 billion in additional revenue over that period, less than the \$56 billion that the Administration projected. (Alternatively, reductions in funding for IRS enforcement activities below baseline levels would probably result in lower revenue collections over time.)

The estimate of \$42 billion in additional revenues does not include any potential effects on voluntary tax compliance from the proposed sustained increases in enforcement spending. Without additional specification of the policies, especially beyond 2012, we have no basis for estimating such effects; although certain types of enforcement spending could improve voluntary compliance, and hence increase revenues, other types could have no impact at all or could even reduce voluntary compliance—for example, if taxpayers responded to new enforcement initiatives by acting even more aggressively to avoid taxes. (The Administration also did not include such effects in its estimate presented in the budget.)

Congressional Scorekeeping. For Congressional scorekeeping purposes, budgetary savings (such as increased revenue) from providing additional appropriations for administrative spending cannot be counted as an offset to such spending under the scorekeeping guidelines found in the Conference Report to accompany H.R. 2015, the Balanced Budget Act of 1997 (H. Rept. 105-217). In general, the purpose of those guidelines is to ensure consistent budgetary treatment across programs and over time. The estimated increases in revenue represent the cumulative impact over time of appropriations for IRS enforcement activities in the amounts proposed in the President’s budget. But those appropriations would be enacted one year at a time. Therefore, even if the added funding was provided for 2012, CBO’s revenue baseline for the 2012–2021 period would not immediately change by the \$42 billion estimated, but rather would increase in steps as the additional investment provided by each year’s appropriation was accounted for—assuming no new information was later identified that would change the estimated effects.

² See U.S. Department of Treasury, *Internal Revenue Service FY 2012 Budget Request: Congressional Budget Submission* (February 14, 2011).

Estimate of the Effect on Revenues of the President's Budget Proposal for
Program Integrity Allocation Adjustments for Enforcement and Compliance
Activities of the Internal Revenue Service

(Millions of dollars, by fiscal year)

June 23, 2011

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2012-2021
Total Changes in Revenues ^a	270	770	1,830	3,000	4,210	5,300	6,040	6,450	6,770	7,090	41,730
<u>Addendum:</u>											
CBO Baseline Budget Authority for IRS Enforcement and Operations Support Accounts	9,143	9,381	9,645	9,928	10,241	10,596	10,969	11,366	11,744	12,127	105,140
Appropriations Proposed by the President for IRS Enforcement-Related Activities that Exceed CBO Baseline Budget Authority ^a	241	548	884	1,254	1,700	1,700	1,700	1,700	1,700	1,700	13,130

NOTE: The estimated increases in revenue result from the President's budget proposal for program integrity adjustments to provide additional spending over the 2012-2021 period relative to baseline amounts for enforcement and compliance activities of the Internal Revenue Service. For Congressional scorekeeping purposes, budgetary savings (such as increased revenue) from providing additional appropriations for administrative spending cannot be counted as an offset to such spending under the scorekeeping guidelines found in the Conference Report to accompany H.R. 2015, the Balanced Budget Act of 1997 (H. Rpt. 105-217). The estimated increases in revenue represent the cumulative impact over time of appropriations for IRS enforcement activities proposed in the President's budget. Those appropriations would be enacted one year at a time. Therefore, even if the added funding was provided for 2012, CBO's revenue baseline for the 2012-2021 period would not increase immediately by the \$42 billion shown, but rather would increase in steps as the additional investment provided by each year's appropriation was accounted for, assuming no new information was later identified that would change the estimated effects.

IRS = Internal Revenue Service.

a. Positive numbers denote an increase in revenues or outlays.

Sources: Congressional Budget Office and staff of the Joint Committee on Taxation.