

“Oversight of the Internal Revenue Service”
Joint Government Operations and the Federal Workforce and
Health Care and Financial Services Hearing
2:00 PM, Tuesday, October 24, 2023
2154 RHOB
Rep. Gerald E. Connolly (D-VA)

The Republican agenda for the Internal Revenue Service (IRS) has three planks. One, drastic funding cuts to the agency. Two, tax cuts for the wealthy that explode our national debt through the Tax Cuts and Jobs Act (TCJA), which, by the way, did nothing to simplify our tax code. Three, less enforcement for high income tax cheats like former President Donald Trump, whose Trump Organization was found guilty of tax fraud and fined \$1.6 million.

In 1982, President Reagan was in his second year of office, and faced a national budget deficit of almost \$100 billion. While other leaders might have reinforced the country’s revenue service, Reagan moved to slash the agency’s budget, resources, and staff, forcing it to run on 5,000 less IRS agents than his first day in office. From 2010 to 2021, the IRS enforcement budget was cut by nearly a quarter. As a result, the agency was forced to abandon its more difficult and complex audits on high earners and from 2010 to 2019 the audit rate for Americans making \$5 million or more dropped from 16 percent to just two percent, further increasing our national debt.

To address this revenue and funding crisis, Democrats passed the Inflation Reduction Act (IRA), and did so without a single Republican vote. This law appropriated almost \$80 billion to bolster the IRS’s taxpayer services, tax code enforcement mechanisms, and resulted in real benefits to taxpayers. In just one year’s time, the IRS has answered three million more phone calls, cutting phone wait times to three minutes from 28 minutes; serviced 140,000 more taxpayers in person; and used new scanning technology to digitize almost 225 times more returns than the previous year. Last year during my chairmanship of the Government Operations Subcommittee, I held a hearing with then-Commissioner Charles Rettig and highlighted the need to retire their legacy IT systems, including the replacement of its 60-year-old Individual Master File (IMF). This project has been ongoing since 2000 but has been stymied by delay after delay. This year, a January 2023 Government Accountability Office (GAO) report found the IRS canceled even more IT modernization initiatives. As a result, the projected IMF retirement date will be pushed back once again and is planned to eclipse the latest date set for 2030. It is unacceptable that this modernization effort is predicted to go on for more than three decades, which equates to half the lifespan of the system. As the current Ranking Member of the Cyber Security, Information Technology and Government Innovation Subcommittee, I will continue to conduct oversight over this modernization effort and act as a stalwart supporter of IT modernization funding.

Unfortunately, our friends on the other side of the aisle have a much different plan. One of the first things the new Republican House majority did was to pass a bill to rescind nearly \$71 billion provided to the IRS by the IRA. Then in May, Republicans attempted to take the American economy hostage by threatening a catastrophic default on our national debt. The Republicans used the pressures of a national default to rescind \$1.4 billion in IRS funding as their pound of flesh for averting a national default, and in a separate deal repurpose \$20 billion for fiscal years 2024 and 2025. And this is not the first time they put their own agenda above the needs of the American taxpayer.

The passage of the Republicans’ Tax Cuts and Jobs Act (TCJA), in 2017, was devastatingly detrimental to our economy. First, the TCJA substantially contributed to our debt, to the tune of \$3 trillion. The Congressional Budget Office (CBO) estimates that this rescission will reduce revenue by \$2.3 billion through 2033 and raise the federal deficit by \$900 million over that period. Second, the law did not even simplify the tax code, as widely advertised, but complicated the filing process. The TCJA not

only birthed a multitude of new tax forms, including a new Form 1040 and a new tax withholding Form W-4, but also eliminated the 1040A short form, the abbreviated Form 1040EZ, and the traditional Form 1040, needlessly manufacturing considerable confusion. Lastly, the reduction of the corporate rate, from 35 percent to 21 percent, was a daylight robbery for conglomerate giants at the expense of the middle class. The TCJA had historically unpopular numbers, rising at a 46 percent disapproval rate - two full disapproval points higher than the unpopularity of the Clinton tax hike in 1993. In fact, this law was so unpopular that both Rep. Chris Collins (R-NY) and Sen. Lindsey Graham (R-SC) defended their vote lamenting the loss of financial contributions from special interest donors if they failed to pass this bill.

Republicans often point to and demonize members in the lowest echelons of our tax bracket as the biggest tax cheats, but in reality, it is the wealthiest who are disproportionately at fault. A study from the National Bureau of Economic Research found that the richest Americans are hiding more than 20 percent of their earnings from the Internal Revenue Service, which amounts to roughly \$175 billion a year in revenue. They estimate that the top one percent of earners account for more than a third of all unpaid federal taxes. Thanks to funding provided by the IRA, the IRS has started to prioritize cases that involve millionaires who owe at least \$250,000 in taxes. This effort is working, and the IRS is currently in the process of recovering \$122 million from 100 such cases.

Republican policies that defund the IRS disproportionately harm low-income families who depend on tax refunds to pay bills and lack the time and resources to contest enforcement errors. During the pandemic, a family in my district who filed their taxes correctly have nevertheless been threatened with hundreds of dollars in fines because someone within the IRS keyed in their return inaccurately. They did everything right but could not find anyone within the IRS to listen to them. This casework went unresolved for years when this error should have been a simple fix.

Republican tax cuts and IRS budget slashes primarily benefit people like Donald Trump who was recently found guilty of 17 charges including tax fraud. This case lasted over five years. Not everyone has the resources to mount such a sustained defense. Because families with low incomes are much easier and inexpensive to audit compared to more wealthy individuals and corporations, the burden of the IRS audits disproportionately falls on lower-income families. Syracuse University published a study that found during FY 2022, out of the over 160 million individual income tax returns that were filed, the IRS audited 659,003 – or just four out of every 1,000 returns filed (0.4 percent). However, when just the lowest income wage earners' numbers were pulled, they were audited at 1.3 percent – or more than three times higher than the average taxpayer. We cannot continue to target our poorest wage earners to pay for the tax cuts of the rich.

I am committed to ensuring the IRS succeeds. A well-resourced IRS lowers the national debt; funds critical investments in education, infrastructure, and research and development; stops wealthy tax cheats; and limits the filing burden on American families. We can begin to rebuild the IRS by restoring the money stripped out of the IRA, hiring more employees with expertise in auditing high-income tax-filers, and investing in IT modernization efforts. Thank you to Commissioner Werfel for appearing today and we look forward to learning from his testimony.