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Appropriations for the Treasury Department and Internal Revenue Service in FY2006: Issues for Congress

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Summary

The Treasury Department performs a host of critical functions. Foremost among them are safeguarding the nation's financial system from a variety of financial crimes and use by terrorist groups hostile to the United States, administering the tax code and collecting tax revenue, managing and accounting for the public debt, administering the government's finances, regulating and supervising financial institutions, and producing coins and currency. This report examines the President's budget request for Treasury and the Internal Revenue Service (IRS) in FY2006, some of the key policy issues it raises, and congressional action on the request. It will be updated to reflect new and significant legislative activity.

For FY2006, the Bush Administration is asking Congress to provide \$11.648 billion in appropriated funds, or 3.8% more than the amount enacted for FY2005. The vast share of the proposed budget would go to the IRS, which would receive \$10.679 billion. The remaining departmental offices and bureaus would receive the following amounts: departmental offices, \$195 million; departmental systems and capital investments, \$24 million; Office of Inspector General, \$17 million; Inspector General for Tax Administration, \$133 million; Air Transportation Stabilization program, \$3 million; Treasury building and annex repair and restoration, \$8 million; Financial Crimes Enforcement Network, \$74 million; Financial Management service, \$236 million; Alcohol and Tobacco Tax and Trade Bureau, \$91 million; and Bureau of the Public Debt, \$177 million.

The Administration request that IRS operations be funded at \$10.679 billion in FY2006 is 4.3% more than the amount enacted for FY2005. To bring its budget request into closer alignment with the IRS's major programs and current strategic plan, the Administration wants to restructure the agency's budget beginning in FY2006. Under its proposal, the number of accounts in the IRS budget would be reduced from six to three: tax administration and operations (TAO), business systems modernization (BSM), and administration of the health insurance tax credit. TAO would be equivalent to the existing accounts for tax law enforcement; processing, assistance, and management; and information systems. For FY2006, the Administration wants to spend \$10.460 billion on TAO, or 4.6% more than is being spent for this purpose in FY2005; \$199 million on BSM, or 2.3% less than the amount enacted for FY2005; and \$20 million on administration of the health care tax credit, or 41.5% less than the amount enacted for the current fiscal year. Compared to the FY2005 budget, the Administration is seeking \$500 million more for enforcement but \$39 million less for taxpayer service and \$4 million less for BSM.

One key issue raised by the budget proposal for the IRS is how it will affect taxpayer service and compliance in the next few years. There is some concern that proposed reductions in spending on taxpayer service and BSM could undermine some of the gains in taxpayer service made since 1998 and efforts to reduce the tax gap.

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Appropriations for the Treasury Department and Internal Revenue Service in FY2006: Issues for Congress

The Treasury Department performs a variety of critical functions. Foremost among them are safeguarding the nation's financial system from a variety of financial crimes and other misuses (including channeling funds to terrorist groups), collecting tax revenue, managing and accounting for the public debt, administering the federal government's finances, regulating and supervising financial institutions, and producing coins and currency. Two important issues facing Congress every year are how much to spend on each of these functions and what conditions (if any) to impose on how those appropriated funds are spent. This report examines the President's budget request for the Treasury Department and the Internal Revenue Service (IRS) in FY2006, some of the key policy issues it raises, and congressional action on the request.¹

Department of the Treasury

In recent decades, the Treasury Department has handled four main responsibilities: (1) formulating, recommending, and implementing economic, financial, tax, and fiscal policies; (2) serving as the financial agent for the federal government; (3) enforcing federal financial, tax, counterfeiting, customs, tobacco, alcoholic beverage, and gun laws; and (4) producing postage stamps, currency, and coinage. The creation of the Department of Homeland Security (DHS) in late 2002 and its assumption of the authorities and duties transferred to it by executive order in March 2003 significantly reshaped Treasury's functional profile. While Treasury still serves as a principal source of economic policymaking within the executive branch of the federal government, as well as the government's financial manager, revenue collector, and producer of currency and coinage, its role in law enforcement is now much more limited.

At its most basic level of organization, the department consists of departmental offices and operating bureaus. The departmental offices are responsible for the formulation and implementation of policy initiatives and the management of departmental operations, and the operating bureaus carry out specific tasks assigned

¹ For a summary of the Administration's budget request in tabular form, see CRS Report RL32905, *Transportation, the Treasury, Housing and Urban Development, the Judiciary, the District of Columbia, the Executive Office of the President, and Independent Agencies: FY2006 Appropriations*, David Randall Peterman coordinator, pp. 8-10.

to the department, largely through statutory mandates. The bureaus typically account for more than 95% of the department's personnel and funding.

With one notable exception, the bureaus can be divided between those focused on managing financial responsibilities and those engaged in law enforcement. In recent decades, the Comptroller of the Currency, U.S. Mint, Bureau of Engraving and Printing, Financial Management Service, Bureau of Public Debt, Community Development Financial Institutions Fund (CDFI), and Office of Thrift Supervision have handled duties related to the management of the federal government's finances or the smooth operation of the U.S. financial system. By contrast, law enforcement has been central to the main tasks done by the Bureau of Alcohol, Tobacco, and Firearms (BATF), U.S. Secret Service, Federal Law Enforcement Training Center, U.S. Customs Service, Financial Crimes Enforcement Network (FinCEN), and Treasury Forfeiture Fund. The exception to this simplified dichotomy is the Internal Revenue Service (IRS), whose main duties embrace both the collection of tax revenue and the enforcement of federal tax laws.

The creation of DHS substantially diminished Treasury's involvement in law enforcement. Under the law establishing DHS (P.L. 107-296), the Secret Service, Customs Service, and Federal Law Enforcement Training Center were transferred from Treasury to DHS, while the Treasury Forfeiture Fund and many functions of BATF were transferred to the Justice Department (DOJ). In addition, the Treasury Department announced in January 2003 the establishment of a new bureau to administer laws governing the use of alcohol and tobacco and implement regulations formerly handled by BATF: the Alcohol and Tobacco Tax and Trade Bureau. Its main duties involve collecting alcohol and tobacco excise taxes, classifying those products for tax purposes, and regulating the operations of industrial users of distilled spirits.

Most Treasury bureaus are funded through annual appropriations. This is true of the IRS, Financial Management Service, Bureau of the Public Debt, departmental offices, FinCEN, Alcohol and Tobacco Tax and Trade Bureau, Office of Inspector General, Treasury Inspector General for Tax Administration, CDFI, and Treasury's international programs. But a handful of bureaus finance their operations largely through user fees or funds received for the services and products they provide and thus receive no appropriated funds. This is true of the Treasury Franchise Fund, U.S. Mint, Bureau of Engraving and Printing, Office of the Comptroller of the Currency, and the Office of Thrift Supervision.

Since the terrorist attacks of September 11, 2001, Treasury has taken several noteworthy steps to deepen and restructure its involvement in the federal government's efforts to combat the financing of terrorist groups professing implacable hostility toward the United States and financial crimes. In March 2003, the Treasury Secretary announced the establishment of the Executive Office of Terrorist Financing and Financial Crimes (EOTF). The Office's mission was to coordinate and direct Treasury's efforts to expose and thwart terrorist financing and a variety of financial crimes, implement certain key provisions of the Bank Secrecy Act of 1970 (BSA) and the USA Patriot Act, and represent the United States in international organizations dedicated to fighting terrorist financing and financial

crimes. In carrying out this task, EOTF was authorized to draw on the resources of FinCEN and the Office of Foreign Assets Control (OFAC).

But it appears these plans never came to fruition. In March 2004, the Treasury Secretary announced the formation of yet another office to oversee and co-ordinate the department's contributions to the government's campaign against terrorist financing and financial crimes: the Office of Terrorism and Financial Intelligence (TFI). TFI integrates the operations and resources of the Office of Terrorist Financing and Financial Crime (TF/FC), OFAC, FinCEN, the Office of Intelligence and Analysis (OIA), and the Treasury Executive Office for Asset Forfeiture. TFI's main purpose is to protect the U.S. financial system against misuse by using the resources of the Treasury Department to uncover and disrupt efforts to channel funds through U.S. financial institutions to terrorist groups, suppliers of illicit drugs, and other criminals or enemies of the United States. In essence, TFI has two functional responsibilities: gathering and evaluating financial intelligence and enforcing various financial laws and regulations. OIA provides the intelligence, mainly through analysis of sometimes complex financial transactions. The enforcement duties, which are handled by TF/FC, OFAC, and FinCEN, include identifying and freezing the bank accounts of terrorists, leaders of drug smuggling operations, and their support networks, implementing U.S. sanctions policy, administering and enforcing the BSA, and establishing working relationships between domestic law enforcement agencies and financial institutions to expose illicit activities. TFI also provides assistance to IRS special agents in their investigations of cases involving allegations of terrorist financing, money laundering, and other financial crimes.

In FY2005, Treasury is receiving \$11.248 billion in appropriated funds, or 1.3% more than it received in FY2004. Most of these funds (about 92%) are being used to finance the operations of the IRS, whose budget is set at \$10.319 billion. The remaining \$929 million is being distributed in the following manner among Treasury's other bureaus and departmental offices: departmental offices (an account that includes OFTI), \$158 million; OFAC, \$22 million; department-wide systems and capital investments, \$32 million; Office of Inspector General, \$17 million; Treasury Inspector General for Tax Administration, \$129 million; Air Transportation Stabilization program, \$2 million; Treasury building and annex repair and restoration, \$12 million; FinCEN, \$73 million; Financial Management Service, \$231 million; Alcohol and Tobacco Tax and Trade Bureau, \$83 million; and Bureau of the Public Debt, \$175 million. These amounts do not reflect an 0.83% across-the-board cut (or rescission) in non-defense discretionary spending included in the law providing funding to the Treasury Department and most other federal agencies in FY2005: the Consolidated Appropriations Act, 2005 (P.L. 108-447).

For FY2006, the Bush Administration is asking Congress to provide \$11.648 billion in appropriated funds, or 3.8% more than the amount enacted for FY2005 (including the rescission). Once again, the vast share of this budget request would go to the IRS, whose budget would total \$10.679 billion. The remaining departmental offices and bureaus would receive the following amounts: departmental offices, \$195 million; departmental systems and capital investments, \$24 million; Office of Inspector General, \$17 million; Inspector General for Tax Administration, \$133 million; Air Transportation Stabilization program, \$3 million; Treasury building and annex repair and restoration, \$8 million; FinCEN, \$74 million;

Financial Management Service, \$236 million; Alcohol and Tobacco Tax and Trade Bureau, \$91 million; and Bureau of the Public Debt, \$177 million. Each account except those for departmental systems and capital investments and Treasury building and annex repair and restoration would be funded at a higher level than FY2005. The Administration also wants funding for OFAC to be treated not as a separate account but as part of its budget request for departmental offices. Under the Administration's budget proposal, total full-time employment at Treasury would rise to an estimated 113,242 from 113,002 in FY2005.

Issues for Congress

According to budget documents released by the Treasury Department, its FY2006 budget request is intended to pursue numerous strategic objectives. Foremost among them are improving taxpayer compliance with tax laws; modernizing IRS's computer and management systems; enhancing Treasury's capability to analyze and disrupt terrorist financing and financial crimes; maintaining and safeguarding the integrity of federal finances and the U.S. financial system; and increasing opportunities for economic development through policy initiatives such as permanent tax cuts and fundamental tax reform.

Recent congressional testimony by Treasury officials indicates that one of the highest priorities is tracking and disrupting the flow of funds to terrorist groups. The Administration proposes spending an additional \$100 million on resources to bolster Treasury's capability to analyze illegal financial transactions and the methods used by terrorist organizations to finance their activities. Such a proposal raises the questions of how the added funds would be used, to what extent those uses would advance the federal government's campaign against terrorist financing, and if the activities that might be undertaken by TFI in FY2006 would duplicate the efforts of other Treasury bureaus (particularly FinCEN) and other federal agencies (e.g., the Department of Justice or the Federal Bureau of Investigation) contributing to the campaign.

One proposal tucked into the Administration's budget request for Treasury may attract congressional scrutiny: a sharp reduction in funding for the Community Development Financial Institutions Fund (CDFI) from \$55.1 million in FY2005 to \$7.9 million in FY2006. From the start, the mission of CDFI, which came into being as a result of the Riegle Community Development and Regulatory Improvement Act of 1994, has been to increase the availability of credit, investment capital, and financial services in relatively poor urban and rural communities. The Administration wants to consolidate within the Commerce Department most of the programs currently funded through the CDFI (e.g., Native Initiatives, Bank Enterprise Award Program, and Community Development Financial Institutions Program) and other federal community development initiatives. Its stated aim in taking such a step is to reduce administrative costs for the programs without harming their efficacy. Under the Administration's proposal, the \$7.9 million requested for FY2006 would allow the CDFI to administer the new markets tax credit created by the Community Renewal Tax Relief Act of 2000 and manage its existing portfolio of loans and grants. The tax credit is intended to lure private investment into poorer neighborhoods with relatively high rates of unemployment through Community

Development Entities. There is some concern that adoption of the Administration's proposed change in the CDFI would undermine the efficacy of its programs.

In addition, the Administration is proposing to establish user fees to cover the cost of the Alcohol and Tobacco Tax and Trade Bureau's regulatory functions. These fees would consist of administrative fees for "drawbacks" from manufacturers of non-beverage products and filing fees for Certificate of Label Approvals for distilled spirits, wine, and beer, American Viticultural Areas, proposed formulas, and new permit applications. Legislation to authorize the Bureau to collect the proposed fees would be sought in 2005. The Administration justifies the fees on the grounds that they would compel firms to pay for the benefits they receive from the Bureau's regulatory activities. Among the benefits cited by the Administration are unadulterated alcohol and tobacco products and fair competition among firms affected by the regulations. Some are concerned that the proposed fees would prove too costly for smaller firms, especially family-owned wineries.

Internal Revenue Service

As part of the federal government's efforts to finance its operations and programs, the government levies individual and corporate income taxes, social insurance taxes, excise taxes, estate and gift taxes, customs duties, and miscellaneous taxes and fees. The federal agency responsible for administering and collecting all these taxes and fees (except customs duties) is the IRS. In discharging this duty, the IRS receives and processes tax returns and other related documents, payments, and refunds; enforces compliance through audits and other methods; collects delinquent taxes; and provides a variety of services to taxpayers to help them understand their rights and responsibilities and resolve problems. In FY2004, the IRS collected \$2.035 trillion before refunds, the largest component of which was individual income tax revenue of \$990 billion.

In FY2005, the IRS is receiving \$10.319 billion in appropriated funds, or 1.3% more than the amount enacted for FY2004. Of this amount, \$4.090 billion is intended for processing, assistance, and management; \$4.399 billion for tax law enforcement; \$1.590 billion for information systems management; \$205 million for the business systems modernization initiative (BSM); and \$35 million to administer the health insurance tax credit established by the Trade Act of 2002. Of the funds appropriated for processing, assistance, and management, Congress has specified that \$4.1 million be used to operate the Tax Counseling for the Elderly program and \$7.5 million be set aside to pay for grants for low-income taxpayer clinics. None of the funds appropriated for BSM may be spent without the consent of the House and Senate Appropriations Committees. In addition, the IRS Commissioner must submit quarterly reports in FY2005 to both committees assessing the agency's "progress, status, and results in implementing its proposed compliance initiatives" for the fiscal year.²

² U.S. Congress, Senate Committee on Appropriations, *Transportation, Treasury and General Government Appropriations Bill, 2005*, report to accompany S. 2806, 108th Cong., (continued...)

The Bush Administration is requesting that IRS operations be funded at \$10.679 billion in FY2006, or 4.3% more than its budget for FY2005 (including the rescission). To bring its proposed budget into closer alignment with IRS's major programs and the main objectives of its most recent strategic plan, the Administration wants to restructure the agency's budget beginning in FY2006. Under the Administration's proposal, the number of accounts in the IRS budget would be reduced from six to three: tax administration and operations (TAO), BSM, and administration of the health insurance tax credit. TAO would be equivalent to the existing accounts for tax law enforcement; processing, assistance, and management; and information systems. For FY2006, the Administration wants to spend \$10.460 billion on TAO, or 4.6% more than is being spent for this purpose in FY2005; \$199 million on BSM, or 2.3% less than the amount enacted for FY2005; and \$20 million on administration of the health insurance tax credit, or 41.5% less than the amount enacted for the current fiscal year. Compared to the FY2005 budget, the Administration is seeking \$500 million more for enforcement but \$39 million less for taxpayer service and \$4 million less for the ongoing effort to upgrade IRS's computer systems for key operational, financial, and managerial functions. The Administration expects that its budget proposal would boost total full-time employment at the IRS from 97,440 in FY2005 to an estimated 97,679 in FY2006.

Issues for Congress

According to budget documents issued by the IRS, the budget request is intended to achieve the three main goals undergirding the agency's current five-year strategic plan issued in July 2004: (1) continued improvement of taxpayer service; (2) strengthened enforcement of the tax laws; and (3) continued modernization of IRS's information systems. It is not clear from the documents how the proposed reductions in spending on taxpayer service and the BSM can be reconciled with these goals.

The budget request suggests that the Administration places a high priority on improving taxpayer compliance with tax laws and collecting overdue taxes.³ A multitude of press reports about illegal corporate tax shelters and sharp declines in audit rates for high-income taxpayers and large corporations since the late 1990s have led to increased congressional scrutiny of the performance and strategic goals of the IRS. The agency estimates that the difference between what individual and corporate taxpayers owed for all federal taxes (income and non-income) and what they actually paid in a timely manner — a difference known as the gross tax gap — in the 2001 tax year, the most recent year for which an estimate is available, amounted to between \$312 and \$353 billion.⁴ In recent years, a variety of experts in tax administration

² (...continued)

2d sess., S.Rept. 108-342 (Washington: GPO, 2005), p. 149.

³ *Ibid.*, pp. 747-749.

⁴ See IRS Fact Sheet FS-2005-14, issued on March 29, 2005. The low estimate of the gross tax gap reflects tax assessments made after taxpayers have appealed rulings by the IRS that taxpayers actually owe more than they claim on their tax returns. By contrast, the high
(continued...)

have recommended that funding for tax law enforcement be substantially increased. A principal rationale for this recommendation is that such expenditures can yield a large return on investment, enabling the IRS to gradually shrink the tax gap.⁵ In recent testimony before the House Ways and Means Subcommittee on Oversight, IRS Commissioner Mark Everson argued that if the agency's requested budget for enforcement in FY2006 were to be enacted, the IRS would be able to increase the audit rate for mid-size corporations from 7.6% in FY2004 to 16% in FY2008, close 50% more delinquent accounts in FY2008 than in FY2004, and raise the audit rate for individual taxpayers with incomes between \$250,000 and \$1 million from 1.5% in FY2004 to 2.8% in FY2008.⁶ The FY2006 budget request marks the sixth year in a row that the IRS has asked Congress for an increase in enforcement staff. But there was no actual increase until FY2005 because the additional funds for enforcement were used to cover unbudgeted cost increases or shifted to other priorities.⁷ An important consideration in evaluating the Administration's budget proposal for IRS is the additional revenue that might be collected in the next few years from meeting or even exceeding the Administration's proposed budget for enforcement.

To ensure that the IRS gets the requested funding for tax law enforcement of \$6.893 billion, the Administration is proposing that Congress fund IRS as a contingent appropriation in FY2006. The budget request would impose caps on discretionary spending for all federal agencies in accordance with Section 302(a) of the Congressional Budget Act of 1974 and Section 251 of the Balanced Budget and Emergency Deficit Control Act of 1985. Congress could increase the cap on IRS spending by \$446 million only if it were to specify that the additional funds must be used for enforcement and approve a base level of funding for enforcement in FY2006 of \$6.446 billion. Otherwise, the added funds could not be appropriated or made available.⁸

⁴ (...continued)

estimate is based on the results of audits of tax returns. For more information, see CRS Report 95-41E, *Tax Gap: Concept and Relationship to Enforcement*, by James M. Bickley.

⁵ The IRS estimates that each dollar spent on enforcement ends up raising more than four dollars in direct revenue. In FY2004, the agency's enforcement activities brought in a total of \$43.1 billion in such revenue, an increase of 15% from the amount realized in FY2003. See testimony of IRS Commissioner Mark Everson before the House Ways and Means Subcommittee on Oversight on April 13, 2005, at [<http://www.waysandmeans.house.gov/hearings>]; and Martin A. Sullivan, "Rx for the IRS: Spend and Tax," *Tax Notes*, Nov. 1, 2004, pp. 646-649.

⁶ See testimony by IRS Commissioner Mark Everson before the House Ways and Means Subcommittee on Oversight on April 13, 2005; at [<http://www.waysandmeans.house.gov/hearing>].

⁷ U.S. Government Accountability Office, *Assessment of Fiscal year 2006 Budget Request and Interim Results of the 2005 Filing Season*, report GAO-05-416T (Washington: April 14, 2005), p. 9.

⁸ See Allen Kenney, "White House Budget Proposes Use-It-of-Lose-It IRS Funding," *Tax Notes*, Feb. 21, 2005, p. 885; and Stephen Joyce, "Administration's FY2006 Budget Includes mechanism to Boost Enforcement Funding," *Daily Report for Executives*, Bureau of National Affairs, Feb. 14, 2005, p. G-7.

In Congress, controversy continues to swirl around a plan by the IRS to hire private debt collectors (PDCs) sometime in 2005 to collect certain delinquent individual tax debt.⁹ Under the American Jobs Creation Act of 2004, the IRS has acquired the authority to enter into contracts with PDCs for the purpose of collecting such debt. Taxes collected by the firms would go into a revolving fund from which the PDCs would then be paid for their services up to 25% of the amount collected. Critics of the plan view the use of PDCs as a threat to taxpayer privacy and the security of IRS jobs. Supporters note that no appropriated funds would be used to pay for the services rendered by the PDCs, that the private collectors would augment and not replace the IRS's own collection efforts, and that hiring PDCs to help reduce the backlog of cases of delinquent tax debt would enable the IRS to focus its enforcement resources on more difficult cases of tax evasion with a potentially higher payoff. The IRS is in the process of soliciting bids on contracts from PDCs that have been hired by the General Services Administration to collect debt owed to various federal agencies. Contracts are to be awarded in the early summer, and collections by private firms could commence in January 2006.

The proposed reduction in spending on taxpayer service of \$39 million would actually be a net reduction in spending for this purpose. The Administration is requesting a gross cut of \$134 million in this service, but it plans to use more than \$95 million of that amount to cover increases in the cost of labor, materials, postage, and rent.¹⁰ Such a net reduction would come on top of a drop in spending for this purpose of \$104 million between FY2004 and FY2005. Some are concerned that further cutbacks in the budget for taxpayer service will lead to the closure of a substantial number of taxpayer assistance centers and a reversal of some of the noteworthy gains in taxpayer service that have occurred since the passage of the Internal Revenue Service Restructuring and Reform Act of 1998 (RRA98, P.L. 105-206).¹¹ These gains include improved responses by IRS staff to taxpayer questions over toll-free telephone lines and access to a number of self-serve options over the telephone and through the IRS website that help reduce the burden of filing tax returns and paying taxes. According to a recent report by the Government Accountability Office (GAO), while the IRS has decided to reduce its spending on taxpayer assistance by a gross amount of \$134 million in FY2006, it has not made a final decision about what specific services to curtail or eliminate.¹² One option under consideration is a reduction in field assistance, including walk-in centers. In testimony before the Senate Appropriations Subcommittee on Transportation, Treasury, the Judiciary, Housing and Urban Development and Related Agencies on April 7, 2005, Commissioner Everson noted that the IRS is weighing two options for choosing taxpayer assistance centers to shut down. One would entail closing 67

⁹ See Allen Kenney, "Appropriators Join in Criticizing IRS Outsourcing," *Tax Notes*, April 25, 2005, pp. 420-421.

¹⁰ GAO, *Assessment of Fiscal Year 2006 Budget Request and Interim Results of the 2005 Filing Season*, pp. 7-8.

¹¹ Allen Kenney, "Deja Vu? Bush Wants \$500 Million for IRS to Toughen Up in 2006," *Tax Notes*, Feb. 14, 2005, p. 748.

¹² GAO, *Assessment of Fiscal year 2006 Budget Request and Interim Results of the 2005 Filing Season*, p. 8.

larger sites in mostly urban areas, and the second would involve the closure of 105 smaller sites in more rural areas; each option is expected to save an estimated \$52 million in FY2006.¹³ It is unclear from Treasury budget documents how taxpayers and taxpayer compliance would be affected by the proposed reduction in spending on taxpayer service.

The Administration's proposed cut in spending on BSM in FY2006 could also have significant effects on taxpayer service and compliance in the next few years. In the view of many, BSM is critical to achieving IRS's near-term goals for taxpayer service and enforcement. While the program has been beset by repeated cost overruns and schedule delays, it is beginning to yield improvements in technology that allow taxpayers to file and retrieve information electronically and the IRS to shrink its backlog of collections cases and provide the financial management information needed to account for the nation's largest revenue stream. Since 2004, the IRS has deployed the following systems as a result of the BSM: Modernized E-File, which is intended to allow large and small firms and tax-exempt organizations to file their tax returns electronically; E-Services, which allows most taxpayers and tax practitioners to conduct business with the IRS electronically; Customer Account Data Engine, which is intended to replace the agency's antiquated computer database of taxpayer information and is currently used to process 1040EZ returns for single taxpayers with refunds; and Integrated Financial System, which replaces aspects of IRS's core financial systems and is intended to operate as its new internal accounting system.¹⁴ Some are concerned that additional cutbacks in the budget for BSM could make it much harder for the IRS to reach its primary goals for the program.¹⁵

A key player in the annual budget cycle for the IRS is the IRS Oversight Board. Under the RRA98, the Board is required to review the agency's annual budget request, submit its own budget recommendation to the Treasury Department, and determine whether the budget submitted by the President to Congress is adequate to support the annual and long-term strategic plans of the IRS.¹⁶ The Board is recommending a budget of \$11.629 billion for the IRS in FY2006, an amount nearly 14% above the amount enacted for FY2005 and 9% greater than the amount requested by the Bush Administration for FY2006.¹⁷ While acknowledging that the IRS has made significant progress in its efforts to improve customer service and combat tax evasion in the past few years, the Board maintains that more money should be appropriated than the Administration has requested for enforcement initiatives (an additional \$35 million), taxpayer service (an additional \$111 million),

¹³ Kurt Ritterpusch, "Everson Defends Proposed Services Cuts, Says IRS not Protected from Fiscal Realities," *Daily Report for Executives*, Bureau of National Affairs, April 8, 2005, p. G-1.

¹⁴ GAO, *Assessment of Fiscal year 2006 Budget Request and Interim Results of the 2005 Filing Season*, p. 17.

¹⁵ Allen Kenney, "Budget Issues Hamstring Modernization, IRS Officials Say," *Tax Notes*, Nov. 22, 2004, pp. 1084-1085.

¹⁶ See 26 U.S.C. § 7802(d).

¹⁷ IRS Oversight Board, *FY2006 IRS Budget: Special Report* (Washington: March 2005), pp. 9-10. Available at [<http://www.irsoversightboard.treas.gov>].

BSM (another \$140 million), and expected increases in IRS operating costs (another \$87 million).