

Restoring the IRS Act of 2021

Senator Elizabeth Warren

For too long, the wealthiest Americans and big corporations have been able to use lawyers, accountants, and lobbyists to avoid paying their fair share in taxes. As a recent [study](#) shows, the top 1% of Americans fail to report more than a fifth of their income on their tax returns, and they account for more than a third of all unpaid federal income tax. This kind of underreporting has helped drive the tax gap – the difference between taxes owed and taxes paid – to exceed an estimated [\\$1 trillion](#) annually.

More than a decade of politically motivated budget cuts, however, have hampered the IRS's ability to perform its core duties – especially enforcement focused on the ultra-rich. Since 2010, the IRS enforcement budget has [declined](#) by more than 20% and the agency has [lost one-third](#) of its enforcement personnel. As enforcement resources have declined, so have the agency's audits of millionaires and giant corporations. Audit rates for the very richest taxpayers, those with incomes over \$10 million, are nearly [80% lower](#) than they were a decade ago, while audit rates for corporations with more than \$20 billion in assets have fallen by nearly half.

Strengthening the IRS's ability to go after wealthy tax cheats will not only require more funding, but more *stable* funding. Most of the IRS's funding is discretionary, meaning Congress decides every year how much money the agency receives. This leaves the IRS budget unpredictable and vulnerable to cuts. By contrast, mandatory funding would provide funding on an ongoing basis, ensuring that the IRS budget is steady, predictable, and sustained – money that lobbyists can't easily strip away. IRS Commissioner Charles Rettig recently [testified](#) that mandatory, multiyear funding would help the IRS crack down on wealthy tax dodgers. In addition to more funding, strengthening information reporting would help the IRS verify wealthy individuals' incomes and make it more difficult for them to hide their income.

These investments pay off. A 2016 [study](#) by the Treasury Department estimates that every \$1 invested in IRS enforcement could yield \$24 in additional revenue, including a nearly \$6 direct return in revenue collection, as well as an indirect deterrence effect estimated to be at least three times the direct revenue impact. Recent analyses estimate that stepped-up IRS enforcement could raise as much as [\\$1.75 trillion](#) over 10 years.

The Restoring the IRS Act would provide the IRS with the resources it needs to go after wealthy tax cheats and close the tax gap. The bill would rebuild and strengthen the IRS by permanently removing the IRS's base budget from the annual appropriations process and providing \$31.5 billion in mandatory annual funding – more than double the IRS' budget in 2010 (adjusted for inflation). This funding will allow the IRS to fairly enforce the tax code, modernize its IT systems, and improve taxpayer services.

The bill would also improve tax compliance by:

- Requiring new third-party reporting from financial institutions to help the IRS verify tax filings for taxpayers with less visible income streams – without adding any burden on individuals
- Requiring the IRS to create a plan, and report annually on implementation progress, to shift audits towards high-income, high-wealth tax filers and corporations
- Requiring the IRS to report annually on the tax gap, and how additional information reporting requirements could further close the tax gap
- Requiring the IRS to conduct an analysis of racial disparities in the agency's enforcement activity
- Increasing penalties for underpayment for taxpayers with income above \$2 million
- Applying the False Claims Act to misstatements on tax returns for taxpayers with income above \$10 million