

Fourscore and Seven (Thousand New IRS Agents)

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Congress passed on 12 Aug 2022 and President Biden signed into law on 16 Aug 2022 the "Inflation Reduction Act". Part of this law provides \$80,000,000,000 to the IRS to fund modernization and increased tax enforcement. Those who voted for this bill did so (if they read it) expect to obtain additional revenues as follows [1]: a) \$181,000,000,000 from improved tax enforcement; b) \$74,000,000,000 from a 1% excise tax on stock buybacks; c) \$222,000,000,000 from a 15% corporate minimum rate on companies with \$1,000,000,000,000 in revenue; and d) \$53,000,000,000,000 from an extension of the limitation on excess business losses. These values total to \$530,000,000,000 over ten years. If so, these projections admit that it will cost 15 cents to obtain each additional dollar, which is a very high 15% collection expense ratio. For comparison, the IRS' current annual expenditure for FY 2021 [2] was \$13,700,000,000, and its collections in FY 2021 were [3] \$4,900,000,000,000, which represents a collection expense ratio of 0.27%. That difference alone should convince you that this is not about additional revenue.

Part of the \$80,000,000,000 is to be devoted to hiring 87,000 new IRS employees, but the type of employees was left to IRS discretion. According to the IRS [4], it has already hired 4,000 new customer service employees to help answer the phone and assist taxpayers with questions, and it plans to hire another 1,000 before 1 Jan 2023. According to another IRS statement [5], the IRS is developing a plan on how to spend the remainder of the \$80,000,000,000. Commissioner Rettig also sent a letter to members of the Senate [6], stating in part:

"These resources are absolutely not about increasing audit scrutiny on small businesses or middle-income Americans. As we've been planning, our investment of these enforcement resources is designed around the Department of the Treasury's directive that audit rates will not rise relative to recent years for households making under \$400,000. Other resources will be invested in employees and IT systems that will allow us to better serve all taxpayers, including small businesses and middle-income taxpayers. Enhanced IT systems and taxpayer service will actually mean that honest taxpayers will be better able to comply with the tax laws, resulting in a lower likelihood of being audited and a reduced burden on them."

Notice that the Commissioner cited Treasury Secretary Janet Yellen's directive to maintain the audit rate on persons making less than \$400,000 annually to the historical norm. Notice that Secretary Yellen did not instruct Mr. Rettig to ensure that the audits are non-partisan; she only instructed him to ensure the overall rate is within historical norms. We can have high confidence that, since Lois Lerner is the patron saint of the IRS, the audit rate for non-Democrats is going to be increased dramatically. It is worse than that: Secretary Yellen does not require Commissioner Rettig to prove that the overall audit rates are within historical norms; it is merely a directive. This legislation gives the IRS a lot more power; but power does not confer confidence in the institution, which is the IRS' real problem.

How can a corrupt politically-motivated government agency be reformed? There are three things that seem like good ideas, but are impractical. First, the IRS cannot be abolished so long as the government requires revenue, and every government requires revenue to carry out its legitimate functions. Second, individuals will be subject to audits so long as our tax code is based on the income tax (personal and businesses). No one in Congress is going to vote to repeal the individual income tax, so audits of individuals will continue indefinitely. Third, the IRS is not going to give up any of its powers; in fact it will likely petition Congress for an expansion of its powers. Any plan to promote the public's confidence in the IRS

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must operate under these constraints. The best that can be hoped for is to ensure that those who are examining our returns for compliance and auditing regular taxpayers are themselves paying their taxes. In other words, it is necessary that all IRS employees be audited for tax law compliance. It will not guarantee that IRS audits of regular taxpayers are non-partisan, but at least we can have confidence that the partisans in the IRS are subject to the same scrutiny.

However, audits of IRS employees must be conducted a little differently than IRS audits of regular taxpayers. We cannot have a situation in which one IRS employee "audits" another IRS employee, as the opportunity for evasion and cheating is too great (remember the core problem here). The audits are not intended to be punitive; they are designed solely to ensure public confidence that those who enforce the law are equally subject to it. An IRS audit system should be set up along these guidelines.

1. Every IRS employee (save for a few, such as the janitorial staff, who have no contact with taxpayers or with tax forms), shall be audited every three years, and said audits shall cover the past three tax years. About 57,000 audits will be required each year, since the number of IRS employees will be about 185,000 after all the new hires are brought on.
2. The auditors shall not be current or former IRS employees, and shall have no first-degree relatives (siblings, aunts, uncles, cousins, or children) who are currently employed by the IRS.
3. Any IRS employee subject to such audits found to be in arrears on tax payments (excluding extensions and other allowances per the current law, same as other taxpayers) shall be permitted an appeal. Said appeal shall be finalized within 30 days of the initial audit findings. If the appeal shows that the IRS employee is in fact delinquent on their taxes, they shall be dismissed with prejudice (ineligible for future employment) within 24 hours. There shall be no managerial discretion permitted regarding dismissal. Payments on delinquent taxes shall follow the current guidelines per the existing law, same as all other taxpayers.
4. The statistics of the audit shall be published annually, noting how many audits were conducted, how many were found in compliance, how many were not, and the locations in which those dismissed resided (by State and county only).

References

- [1] Analyses as cited in: https://en.wikipedia.org/wiki/Inflation_Reduction_Act_of_2022
- [2] <https://www.irs.gov/statistics/irs-budget-and-workforce>
- [3] FY 2022 IRS Agency Financial Report, (Form 5456), available at: <https://www.irs.gov/pub/irs-pdf/p5456.pdf>
- [4] <https://www.irs.gov/newsroom/irs-quickly-moves-forward-with-taxpayer-service-improvements-4000-hired-to-provide-more-help-to-people-during-2023-tax-season-on-phones>
- [5] <https://www.taxpayeradvocate.irs.gov/news/tas-tax-tip-what-the-inflation-reduction-act-means-for-you/>
- [6] Commissioner Rettig to Members of the United States Senate, 4 Aug 2022; available at: <https://www.irs.gov/pub/irs-utl/commissioners-letter-to-the-senate.pdf>