U.S. Department of the Treasury, IRS Release New Analysis Showing the High Return on Investment from Inflation Reduction Act Resources

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More comprehensive estimates show transformative investments, if sustained, will result in $851 billion in additional revenue through 2034

WASHINGTON – Today the U.S. Department of the Treasury and Internal Revenue Service (IRS) released a new analysis showing the high return on the Inflation Reduction Act (IRA) investment in rebuilding and modernizing the IRS. Taking a more comprehensive approach to evaluating the transformational initiatives enabled by the IRA, the IRS estimates in a new paper "Return on Investment: Re-Examining Revenue Estimates for IRS Funding" that the IRA as enacted would increase revenue by as much as $561 billion over 2024-2034, substantially more than earlier estimates. If IRA funding is renewed when it runs out, as the Administration has proposed, estimated revenues would be as much as $851 billion.

Previous IRS estimates of IRA revenues were limited to revenues generated by direct enforcement activities resulting from higher enforcement staffing. This narrow focus does not capture the full range of ways that the technology, data, and service improvements made possible by the IRA will increase revenues. A full accounting of the revenue raised by this transformation requires a more comprehensive examination of the potential revenue impacts of higher funding.

"The IRS's previous estimates of revenue generated by IRA funding were limited to revenues directly resulting from increased enforcement staffing. Consequently, the estimates did not present a complete picture of the revenue benefits of the innovative investments we are making under the IRA SOP [Strategic Operating Plan,]" the new paper concludes. **"The approach ignored many activities that will influence revenue, including enhancing services to improve voluntary compliance, modernizing technology, and adopting analytic advances that can dramatically improve productivity. It also ignored the deterrence effect of compliance activities on taxpayers' behavior. To account for the potential revenue impact of the full array of**

investments contemplated in the IRA SOP, we need to look at the effects on revenue collection in a more comprehensive way."

"IT modernization offers a wide array of potential revenue benefits. [E]xpanded data intake capacity and productivity will help increase compliance; improved audit selection and collection planning can increase the productivity of enforcement activities," the paper finds. **"A decade ago, the State of California undertook to modernize its tax administration infrastructure. Many of the changes implemented are similar to those we are undertaking now [...] The California experience demonstrates that these improvements can substantially increase revenue."**

The new estimates released today are a first step in developing more comprehensive revenue estimates for IRS funding. They incorporate the benefits of improved technology, data analytics, and service, as well as the impact of deterrence on wealthy taxpayers who are audited. The estimates represent an important step forward and highlight the need for additional research: Treasury and the IRS will continue to study these issues and encourage outside research on these important topics as well.

The new findings also show what's at stake in proposals to repeal or reduce this historic investment in the IRS. A $20 billion rescission would reduce revenues by over $100 billion. While the IRS would still be able to ramp up enforcement against big corporations and wealthy taxpayers who do not pay what they owe in the next several years, the rescissions would cause IRA enforcement funding to run out in 2029— about two years earlier than it would have under the IRA as enacted—reducing the revenue raised in 2029 and subsequent years. The Administration has proposed extending and maintaining IRS investments after the IRA funds are exhausted, which would enable the IRS to collect $851 billion over 2024-2034. Conversely, additional rescissions of IRA resources or cuts to IRS base funding would further reduce revenue collections and could reverse taxpayer service improvements that have already been made and even endanger near-term enforcement efforts.

The IRA investments in the IRS were necessary because a decade of deep funding cuts resulted in unacceptable service levels, prevented technological upgrades, and undermined enforcement, particularly efforts focused on wealthy people and big corporations that do not pay what they owe. Driven by these funding cuts, the audit rate on millionaires fell by more than 70% from 2010 to 2019, and the audit rate on large corporations fell by more than 50% over the same period. The tax gap—the difference between taxes owed and taxes paid—has grown to more than $600 billion annually.

The IRA is enabling the IRS to reverse this trend and make wealthy taxpayers and big corporations pay the taxes they owe. Already, the IRS has announced a suite of enforcement efforts targeted at wealthy taxpayers and big corporations, including expanded audits of the biggest corporations and complex partnerships; a focus on foreign-owned corporations that underpay their U.S. taxes; and a campaign to collect tax debt from 1,600 millionaires with at least $250,000 in back taxes that has recovered more than $500 million to date. At the same time, the IRS is implementing the IRA consistent with Secretary of the Treasury Janet L. Yellen's commitment that audit rates for small businesses and taxpayers earning less than $400,000 will not increase relative to historic levels.

Furthermore, all taxpayers will benefit from the far-reaching initiatives outlined in the IRA Strategic Operating Plan (SOP). The SOP details how the IRS will use IRA resources to provide taxpayers with world-class customer service, clearer guidance on how to correctly file taxes, increased options for filing electronically, and robust online accounts so that individuals and businesses can file quickly and independently. Taxpayers will have the tools, information and assistance needed to get their tax filings right the first time—both in paying what they owe and claiming the tax benefits for which they are eligible.

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