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Budget Model

Why are Changes to IRS Funding Always Scored as Increasing the Deficit?

Summary: The House of Representatives is considering legislation that would rescind $14.3 billion of IRS funding as a budgetary offset for a package that provides aid to Israel. CBO estimates that the decrease in IRS funding alone would reduce revenue by $26.8 billion over 10 years, increasing the deficit by $12.5 billion. Due to scoring conventions, CBO's projected deficit increase could not be reversed for any future legislation that adds the $14.3 billion in funding back to the IRS.

Key Points

- CBO estimates that rescinding $14.3 billion of IRS funding would increase the 10-year deficit by $12.5 billion, not including funding aid to Israel. PWBM separately estimates that the IRS funding reduction would increase deficits by $23.1 billion, not including aid to Israel.

- CBO budget projections of changes to IRS funding are constrained by a series of existing scoring guidelines. These guidelines require that any change in IRS funding---whether an increase or a decrease in IRS funding---are effectively scored as an *increase* in the projected deficit.

- Under those guidelines, the revenue gains associated with an increase in IRS funding are excluded from official scores. Therefore, any future legislative attempt to restore IRS funding would further increase the deficit, rather than reduce it.

Introduction

Budget scorekeepers such as the Congressional Budget Office (CBO) follow a series of guidelines that were originally intended to protect the integrity of cost estimates of proposed legislation as well as promote consistency between CBO and other scoring entities.[1] However, Guideline 14 stipulates that "No increase in receipts or decrease in direct spending will be scored as a result of provisions of a law that provides direct spending for administrative or program management activities." The motivation for Guideline 14, according to CBO, is to "avert cases in which possible, but uncertain, savings were used to offset near-term increases in spending resulting from the same bill."

However, that budgetary treatment also creates a significant asymmetry in the scoring of proposals to change IRS funding levels. In effect, any change in IRS funding---whether an increase or a decrease in IRS funding---are scored as an *increase* in the projected deficit. A similar scorekeeping rule---Guideline 3---applies to annual discretionary appropriations with one key difference: it does not have the same directional asymmetry.

Decreasing IRS Funding is Projected to Increase Deficits

CBO recently scored legislation that would rescind $25 billion of IRS enforcement funding over 10 years, as shown in Table 1. The agency projected that such a funding cut would lead to the loss of $49 billion in tax revenues. In this case, the change in revenues is permitted to be included in the official score. On net, CBO projected that cutting IRS funding by $25 billion would increase budget deficits by $24 billion.

Table 1. CBO's October 2023 Estimate of Rescinding $25.035 billion of IRS funding

Millions of dollars

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	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2024 - 2033**
Change in Outlays	-814	-1,268	-1,830	-2,497	-3,337	-4,266	-5,420	-5,603	0	0	-25,035
Change in Revenues	-1,578	-3,368	-4,718	-5,855	-6,802	-7,527	-7,823	-7,676	-2,143	-1,307	-48,797
Change in Deficit	764	2,100	2,888	3,358	3,465	3,261	2,403	2,073	2,143	1,307	23,762

Source: Congressional Budget Office

Increasing IRS Funding is also Projected to *Increase* Deficits

Increases in IRS funding for tax enforcement are generally expected to lead to increased tax revenues.

However, under Guideline 14, those revenues must be excluded from official scores. Almost $80 billion of additional funding was provided to the IRS by the Inflation Reduction Act of 2022. As shown in Table 2, CBO officially projected that this IRS provision would add almost $80 billion in deficits over 10 years.

Table 2. CBO's official score of providing $79.6 billion of additional IRS funding in Inflation Reduction Act (PL 117-169)

Millions of dollars

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	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022 - 2031
Change in Outlays	0	3,823	3,380	4,970	6,248	7,996	10,106	12,617	15,072	15,388	79,600
Change in Revenues	0	0	0	0	0	0	0	0	0	0	0
Change in Deficit	0	3,823	3,380	4,970	6,248	7,996	10,106	12,617	15,072	15,388	79,600

Source: Congressional Budget Office

However, CBO staff calculated that without Guideline 14, the IRS provision in the Inflation Reduction Act would have *reduced* the 10-year deficit by $101 billion, as shown in Table 3. (For comparison, PWBM estimated a reduction in the 10-year deficit of $146.6 billion.) In arriving at their number, CBO estimated an increase in revenue of $180 billion, not including the IRS funding itself. Subtracting the IRS funding produced a net deficit reduction of $101 billion. CBO reported these results as a “memo” item outside of their official score.

Table 3. CBO's estimate of providing $79.6 billion of additional IRS funding in Inflation Reduction Act (PL 117-169)

Millions of dollars

DOWNLOAD DATA

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2022 - 2031
Change in Outlays	0	3,823	3,380	4,970	6,248	7,996	10,106	12,617	15,072	15,388	79,600
Change in Revenues	0	2,012	5,106	11,125	16,116	21,716	26,314	31,218	34,877	31,904	180,388
Change in Deficit	0	1,811	-1,726	-6,155	-9,868	-13,720	-16,208	-18,601	-19,805	-16,516	-100,788

Source: Congressional Budget Office

Conclusion

Budget scorekeeping guidelines are intended to protect the integrity of the scoring process while ensuring consistency of analysis across agencies. But these rules have tradeoffs. Following strict scorekeeping guidelines, almost any change to IRS funding would count as an increase in the deficit, which is at odds with the evidence and even CBO's own view.

This analysis was produced by Ed Murphy under the guidance of Alex Arnon and Kent Smetters. Mariko Paulson prepared the brief for the website.

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1. Other government entities that might score legislation include the Office of Management and Budget, The U.S. Treasury, the Office of Chief Actuary at the Social Security Administration, and the House and Senate Committees on the Budget. ↩