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IRS Audits Fall to an 11-Year Low

By RICHARD RUBIN

WASHINGTON—The Internal Revenue Service's audits of individual taxpayers fell to the lowest rate in 11 years, a revenue-sapping result that the agency's commissioner blames on budget cuts.

The IRS audited 0.84% of individual taxpayers in the 2015 fiscal year, the lowest level since 2004, the agency said Tuesday. Revenue from audits declined by 41% to \$7.3 billion and fell to the lowest level since 2002, the IRS said.

For fiscal 2015, which ended Sept. 30, the IRS had a \$10.9 billion budget, down 10% from the peak in 2010. The IRS has 22% fewer revenue agents—the IRS name for auditors—than it had five years ago, when it audited 1.1% of individuals.

"When you have fewer employees doing compliance work, you end up leaving tax revenue on the table," IRS Commissioner John Koskinen said in a speech to accountants Tuesday. "In cutting the IRS budget, the government is forgoing billions just to achieve budget savings of a few hundred million dollars, since we estimate that every \$1 invested in the IRS produces \$4 in revenue."

The IRS uses audits both as a collection method and as a deterrent to tax cheating. The agency attempts to concentrate its resources in areas where it has evidence of non-compliance, so high-income households and low-income people who receive the earned-income tax credit are more likely to get audited than

other groups are. The IRS uses statistical formulas to select individual returns for audits.

The IRS and the Obama administration have been urging Congress to provide more money, but so far it hasn't come. The IRS said in 2013 that it had given some groups improper scrutiny solely because of their Republican-leaning names and since then Republicans have been proposing budget cuts and bills to limit the agency's authority to oversee nonprofit groups.

Indeed, the gap between the administration's budget request and Republican positions has only grown. The IRS requested \$12.9 billion for the fiscal year that started Oct. 1, while the House Appropriations Committee approved \$10.1 billion.

The budget agreement reached last week could provide some money because it raised funding levels for the government as a whole. The IRS budget is likely to be one of the most contentious pieces of spending talks that will occur between now and mid-December.

"My hope is that we've made a compelling case as to why we need the resources and particularly, specifically, what would happen with each dollar we get," Mr. Koskinen said last week after testifying at a Senate Finance Committee hearing. "If you're worried about the deficit, you're worried about offsets, it doesn't make sense to take your revenue arm, starve it of funds and watch your collections go down by a greater amount."