

# Tax Policy Group

## CONGRESSIONAL HEARING SUMMARY

**COMMITTEE:** Senate Finance Committee – Full Committee  
**SUBJECT:** IRS Fiscal Year 2019 Budget  
**DATE:** February 14, 2018

### Members Present

**Republicans:** Chairman Orrin Hatch (UT), Bill Cassidy (LA), and Rob Portman (OH)

**Democrats:** Ranking Member Ron Wyden (OR), Maria Cantwell (WA), Ben Cardin (MD), Tom Carper (DE), Claire McCaskill (MO), Bob Menendez (NJ), Mark Warner (VA), and Whitehouse (RI)

### Witnesses

**The Honorable David J. Kautter**  
Acting Commissioner, Internal Revenue Service & Assistant Secretary for Tax Policy  
U.S. Department of the Treasury

### Overview

The Senate Finance Committee convened a hearing to discuss the administration's proposal for the IRS's fiscal year 2019 budget.

### Opening Statements

#### **Senate Finance Committee Chairman Orrin Hatch**

- The tax bill has provided middle-class tax relief, lowered taxes for corporations, and encouraged growth. The Treasury Department, IRS, and Congress must now work together to ensure that the new tax law is implemented and administered as Congress intended.

- Since the IRS will bear the brunt of the burden of implementing and administering the new tax law, it will require sufficient funding and personnel to carry out its mission.
- Currently, the IRS lacks the necessary tools to efficiently do its job. For example, the agency is still using outdated computer software.
- The administration in its budget has proposed major cuts to IRS funding. While agency reductions are a good thing in some cases, they should not be done through the blunt axe of blind budget cuts.
- The committee will carefully consider the issue of IRS funding and be fiscally responsible with any solutions.
- Increasing agency funding is not a defense of the agency – there is much room for improvement.
- In the coming months, the committee will be examining possible administrative reforms at the IRS, giving the agency greater flexibility. The committee will work with the IRS on ways to improve taxpayer services and modernization efforts as it drafts legislation to improve the agency.
- A copy of Hatch’s opening statement is available [here](#).

#### **Senate Finance Committee Ranking Member Ron Wyden**

- Last month, Republicans passed legislation making \$10 trillion in tax changes – the biggest overhaul in three decades that requires a myriad of complicated rule changes.
- In order to effectively implement the new tax law, the IRS must receive adequate funding.
- The administration’s budget has held the agency’s funding flat. By the administration’s own estimates, this will result in a less than 50 percent call center service rate for taxpayers, down from 75 percent in 2018.
- As cybercriminals are cooking up new schemes to defraud the IRS and steal refunds, the IRS must have the proper resources to protect American taxpayers.
- A copy of Wyden’s opening statement is available [here](#).

#### **Acting IRS Commissioner David J. Kautter**

- The president’s FY 2019 budget request of \$11.135 billion includes savings and reductions of \$23.7 million.
  - Operations Support: Includes \$4.16 billion for operations support programs including rent, cyber and physical security, IT services for all IRS employees,

and core tax processing and compliance systems. Within that total, \$2.29 billion is allocated for information services and \$187.8 million to enable the IRS to implement critical hardware and software upgrades and reduce system outages and failures.

- Taxpayer Services: Includes \$2.24 billion for taxpayer services, which is \$108.7 million below the FY 2018 Annualized Continuing Resolution (ACR) level. Kautter noted that the IRS is mindful of the need to continually improve taxpayer services, but did not elaborate on how it would do so with funding reductions.
- Enforcement: Includes \$4.63 billion for enforcement programs, which is \$21.2 million above the FY 2018 ACR level.
- Business Systems Modernization: Includes \$110 million for business systems modernization, which is \$178.0 million below the FY 2018 ACR level.
- Kautter also requested \$397 million in funding for tax law implementation, which includes the following:
  - \$291 million for updating information technology systems;
  - \$75 million for taxpayer assistance, education and outreach;
  - \$3 million for creating and revising tax forms (450 forms), instructions, and publications;
  - \$15 million for developing and issuing published guidance and notices;
  - \$8 million for tax and information returns processing; and
  - \$5 million for program management.
- The president's budget also includes several legislative proposals:
  - Program Integrity Cap: A \$362 million program integrity cap adjustment to fund new and continuing investments in the IRS's tax enforcement program.
  - Streamlined Critical Pay Authority (SCPA): Allows the IRS to move quickly and hire well-qualified individuals to fill positions critical to the agency's success. This authority ended in December of FY2013 and the last appointment made under the program expired on Sept. 29, 2017. Without this authority, the IRS will continue to face challenges in recruiting and retaining top-level talent, especially IT professionals.
  - Correction Procedures for Specific Errors: Gives the IRS greater flexibility to correct specific errors on taxpayer returns, especially in cases where the information provided by the taxpayer does not match the information contained in government databases or where the taxpayer has exceeded the lifetime limit for claiming a deduction or a credit.

- Minimum Qualifications for Return Preparers: Allows the Secretary to require that over 400,000 return preparers have a minimum knowledge of the code and have the credentials to handle taxpayer returns.
- A copy of Kautter's opening statement is available [here](#).

### **Highlights from Q&A**

**Agency Budget Cuts.** Sen. Hatch asked Kautter why the agency has asked for less money in its budget, despite all its upcoming projects, such as issuing guidance on tax reform and modernization efforts. Kautter assured Sen. Hatch that the budget cuts would not negatively impact the agency as it implements the new tax law, ramps up cybersecurity and enforcement efforts, improves taxpayer services, and modernizes its IT systems. Kautter noted that the budget actually calls for a \$184 million increase in enforcement and modernization dollars, as well as an additional \$397 million to implement the tax law. This, combined with its request for Congress to reauthorize the SCPA, will ensure that the IRS has adequate resources to carry out its mission.

**Partnership Guidance.** Sen. Wyden asked when the agency plans to issue pass-through guidance. Kautter would not commit to a timeline, simply noting the agency would release guidance as soon as possible and that it would continue to prioritize clarifying the new tax law for small businesses. Sen. Hatch responded to Sen. Wyden's question, noting that small businesses will absolutely benefit from the new tax law and the pass-through provisions have been simplified for small businesses.

**Streamlined Critical Pay Authority (SCPA) and Resources for the Agency.** Both Sens. Cantwell and Carper asked Kautter about what resources the IRS needs in order to adequately carry out its mission. Kautter noted that the IRS needs funding for SCPA, additional funds to implement the new tax law, and increased funds for taxpayer services. Kautter emphasized that SCPA allows the IRS to hire talented individuals in nearly half the time it would ordinarily take and pay these individuals far more than the government pay scale ordinarily allows. Without SCPA, the IRS loses top talent, leaving huge gaps at the agency.

**Property Taxes.** Sen. Menendez asked Kautter how the IRS would view taxpayer donations to states in lieu of paying state taxes, given that the IRS did not allow taxpayers to pre-pay 2018 property taxes, unless the taxes were assessed in 2017. Kautter noted that charitable contributions qualify for tax deductions as long as the primary purpose of the contribution is donative, which is a disinterested and detached interest of generosity. Sen. Menendez represents New Jersey, which, like many other high-tax states, is considering allowing residents to donate to state funds instead of paying state taxes, since they no longer fully qualify for federal deductions for sales and property taxes. Sen. Menendez noted that even prior to the passage of the *2017 Tax Act*, donations to state scholarship programs qualified for tax credits, with 32 states already having such programs in place.

**IRS Restructuring.** Sen. Wyden asked Kautter about his opinion on restructuring the IRS. Kautter cautioned against a major overhaul of the agency while it's implementing the new tax law. Kautter noted that he supports smaller administrative changes within the agency, but noted that restructuring the agency entirely would disrupt normal function, taking away from the agency's ability to implement the new tax law.

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