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House appropriators OK pared-down FY 2025 IRS budget proposal without further mandatory funding rescissions

House Republican efforts to cut the Internal Revenue Service's operating budget for the coming fiscal year continued this week as the GOP-led Appropriations Committee voted 33-24, along party lines, to approve a Financial Services and General Government funding measure on June 13 that would allocate $10.1 billion in discretionary funds to the IRS in FY 2025—some $2.2 billion below the current funding level and the amount requested by the Biden administration in its FY 2025 budget blueprint.

The measure does not, however, include additional rescissions to the 10-year mandatory funding made available to the agency in the Inflation Reduction Act of 2022.

Proposal at a glance

The committee-approved bill (text; summary) is identical to the measure reported out of the House Appropriations Financial Services and General Government Subcommittee on June 5, save for some technical changes that were incorporated into a manager's amendment ahead of this week's mark-up.
URL: https://docs.house.gov/meetings/AP/AP00/20240613/117435/BILLS-118-FC-AP-FY2025-AP00-FY25FSGGFullCommitteeMark.pdf
URL: https://appropriations.house.gov/sites/evo-subsites/appropriations.house.gov/files/evo-media-document/fy25-fsgg-full-committee-bill-summary.pdf

Here's an overview of how the proposed IRS budget, as approved by the House panel, compares with the funding levels currently in effect and the amounts that the White House requested for the coming fiscal year.

Reduced program allocations: Proposed allocations to the IRS's four program areas in the committee-approved bill break down this way:

- **Enforcement:** $3.44 billion (FY 2024 enacted/FY 2025 White House request: $5.4 billion);
- **Taxpayer Services:** $2.78 billion (FY 2024 enacted/FY 2025 White House request: $2.8 billion);
- **Operations Support:** $3.75 billion (FY 2024 enacted/FY 2025 White House request: $4.1 billion); and
- **Business Systems Modernization:** $150 million (FY 2024 enacted/FY 2025 White House request: Zero).

The Biden administration's proposed topline number for the IRS—$12.3 billion—is consistent with the agency's fiscal year 2023 and 2024 allocations and aligns with the discretionary spending caps that President Biden and then-House Speaker Kevin McCarthy, R-Calif., agreed to in the Fiscal Responsibility Act of 2023 (P.L. 118-5), which was signed into law in June of last year and affirmed this past January in a handshake deal on government funding between current Speaker Mike Johnson, R-La., and Senate Majority Leader Charles Schumer, D-N.Y. Among other things, the Fiscal Responsibility Act made certain fiscal policy changes—including provisions to keep nondefense discretionary spending flat for fiscal year 2024 and limit annual growth to 1 percent for fiscal years 2025 through 2029—and suspended the federal debt limit until January of 2025.
URL: https://www.congress.gov/118/plaws/publ5/PLAW-118publ5.pdf

Since the Fiscal Responsibility Act was signed into law, however, a segment of conservative House Republicans has sought to hold nondefense discretionary spending closer to the levels in effect for fiscal year 2022. (Their contention has been that the caps included in the 2023 legislation set a ceiling for spending, but not a floor.)

No additional cuts to mandatory funding: The committee-approved bill, like the version cleared by the Financial Services and General Government Subcommittee, does not include further cuts to the 10-year mandatory funding allocated to the agency under the Inflation Reduction Act. Some Republicans had hinted after the June 5 subcommittee mark-up that rescissions might be folded in when the full committee took up the bill, either as part of a manager's amendment or through amendments offered by individual appropriators. No such modifications were offered, however, and the issue was not raised during the committee's deliberations.

The Inflation Reduction Act as enacted in 2022 provided $80 billion in mandatory funding for the IRS through 2032; however, $20 billion of that amount was subsequently reallocated to other budget priorities in keeping with the spending agreements reached between the president and congressional leaders. The administration's latest budget package proposes to backfill that reduction by making the mandatory funding stream available through 2034—that is, for the additional years covered by the latest 10-year budget window in the fiscal year 2025 blueprint. In total, the Biden budget proposes that the agency receive $104.3 billion in mandatory funding through 2034, with about half of that dedicated to enforcement, and lesser amounts dedicated to technology and operations support, taxpayer services, and business systems modernization.

Direct File restrictions survive Democratic challenge: The committee-approved bill incorporates all the policy riders that were part of the Financial Services and General Government Subcommittee's legislation—including, most notably, a provision that would prohibit the IRS from using any of its allocated funding on its Direct File initiative without first getting approval from the appropriations committees and the taxwriting committees in both chambers.

An amendment from Financial Services and General Government Subcommittee ranking member Steny Hoyer, D-Md., which would have deleted that restriction from the bill was defeated by a vote of 23-33. (This was the only IRS-related amendment to be offered during the mark-up.)

Direct File is an on-line platform the agency developed using its Inflation Reduction Act funding to allow taxpayers with relatively simple returns to file their taxes directly with the IRS at no cost. It was launched as a limited pilot program (available to taxpayers in 12 states) for the 2024 filing season, but the IRS recently announced that it intends to make the program available as a permanent option for taxpayers in all 50 states beginning in 2025, and gradually expand the range of tax-return issues that the platform can support.
URL: https://www.irs.gov/newsroom/irs-makes-direct-file-a-permanent-option-to-file-federal-tax-returns-expanded-access-for-more-taxpayers-planned-for-the-2025-filing-season

Republican lawmakers generally have been wary of Direct File, arguing that the initiative requires congressional authorization and that allowing the nation's tax collector to also be involved in the filing process gives the IRS too much power. Democrats have countered that halting the program would rob taxpayers of a free and convenient way of filing their returns. (IRS Commissioner Danny Werfel, for his part, has maintained that launching Direct File falls within the agency's general authority to administer the tax system in ways that promote taxpayer convenience, that the Direct File does not put the IRS into the role of a tax return preparer since taxpayers are responsible for entering their own data into the system, and that Direct File is intended to serve as just one in an array of options available to taxpayers when they file their returns.)

What's next?

If the pared-down IRS funding package approved by the House Appropriations Committee clears the full chamber on the strength of Republican votes alone—an outcome that appears likely—it is destined to encounter resistance in the Democratic-controlled Senate, where appropriators appear poised to move an IRS budget that aligns with the Fiscal Responsibility Act and the administration's budget blueprint.

Senate Appropriations Financial Services and General Government Subcommittee Chairman Chris Van Hollen, D-Md., has dismissed the emerging House bill as "a nonstarter." (As of press time, Van Hollen had not set a date for his panel to mark up its own funding proposal.) Senate Finance Committee Chairman Ron Wyden, D-Ore., meanwhile, has commented that the House measure would "deprive law-abiding taxpayers of the choice to file their taxes for free with the IRS's new direct file program by shutting it down before it expands nationwide"; moreover, he said, it would reward "rich tax cheats" and penalize "typical Americans who earn a wage [and] follow the law. . . ."
URL: https://www.finance.senate.gov/chairmans-news/wyden-statement-on-house-republican-irs-budget-proposal

Quite possibly, though, lawmakers may have to adopt a temporary stop-gap funding measure to keep the government's doors open when fiscal year 2025 begins on October 1. In that event, IRS funding and other contested budget issues could be kicked to a post-election "lame duck" session of Congress—or even into next year, when the next Congress and the next presidential administration will be empowered to craft a more durable budget.

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Senate taxwriters advance Tax Court nominees

A week after holding a nomination hearing, the Senate Finance Committee on June 13 voted to approve three nominees to the US Tax Court and send them on to the full Senate for confirmation. If their nominations ultimately clear that chamber, Rose Jenkins, Adam Landy, and Kashi Way will begin 15-year terms adjudicating disputes between the IRS and taxpayers.

Landy was approved by a committee vote of 26-1, while Jenkins and Way were both approved by votes of 25-2. Sen. Tim Scott, R-S.C., was the only member of the panel to oppose all three nominees. Taxwriter Marsha Blackburn, R-Tenn., joined him in opposing Jenkins and Way.

Jenkins is currently an attorney in the office of the IRS Associate Chief Counsel (Procedure and Administration), Way has spent 19 years as a staff member at the Joint Committee on Taxation, and Landy has been serving as a special trial judge for the Tax Court since 2021.

Filling a depleted bench

The Tax Court has been relying on special trial judges as one way to handle its vacancies and the backlog of cases that arose during the early years of the COVID-19 pandemic; however, under the court's rules, special trial judges aren't authorized to make decisions in large cases, making the need for a full bench important.

There are currently six vacancies among the 19 seats on the court. That count will be reduced to three if the nominees approved by the Finance Committee this week are confirmed by the Senate. In May, President Biden nominated Jeffrey Arbeit, Cathy Fung, and Benjamin Guider III to fill the three remaining Tax Court vacancies, but the Finance Committee has not yet scheduled a hearing to vet them.

Treasury IG nominee also approved

The Finance Committee also voted June 13 to approve the nomination of James Ives to serve as Treasury Department inspector general (IG), by a margin of 26-1, with Tim Scott casting the lone opposing vote. Ives currently is a deputy inspector general at the Defense Department.

The IG's office at Treasury has broad authority over the department's operations generally, as opposed to the office of the Treasury Inspector General for Tax Administration (TIGTA), which focuses more narrowly on the IRS and the administration of tax laws.

No word on timing for Senate votes

Senate confirmation votes for the Tax Court and Treasury nominees that the Finance Committee advanced this week have not yet been scheduled.

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Senate Budget Committee hearing on corporate, high-wealth tax issues previews partisan fissures ahead in 2025

A hearing of the Senate Budget Committee this week convened by Chairman Sheldon Whitehouse, D-R.I., ostensibly to discuss "making Wall Street pay its fair share" in taxes, quickly revealed the deep divisions between Democrats and Republicans on a host of issues related to the taxation of corporations and high-income individuals—a dynamic certain to be front and center next year when lawmakers confront the pending expiration of much of the Trump-era Tax Cuts and Jobs Act of 2017 (TCJA, P.L. 115-97).
URL: https://www.congress.gov/115/plaws/publ97/PLAW-115publ97.pdf

Whitehouse: Tax code favors special interests

The discussion at the June 12 hearing split along party lines soon after the opening gavel came down.

"Our tax code is corrupted and rotten," Chairman Whitehouse said in his opening statement. "Turned upside down for special interests."

Whitehouse—who also serves as a taxwriter on the Senate Finance Committee—went on to enumerate a host of policies in the tax code that he believes should be overhauled.

"Fix the carried interest loophole. Stop rewards for offshoring jobs. Lock in a real corporate minimum tax on foreign profits so huge corporations can't pay zero. Raise the tax on buybacks passed in the Inflation Reduction Act. Tax companies that pay their CEOs more than 50 times what they pay their average worker. Enact a minimum tax so the richest can't pay lower rates than everyone else. Use decorrupting the tax code to make Medicare and Social Security sound and safe as far as the actuarial eye can see," Whitehouse said.

Whitehouse also suggested that simply addressing the sunset of large swaths of the TCJA after 2025 would not be enough to fix the tax system and that lawmakers should take additional steps to make the tax code more progressive. (Among the marquee TCJA provisions that are scheduled to lapse after 2025 are reduced income tax rates for individuals, increased estate and gift tax exemption amounts, and the 20 percent deduction for certain passthrough business income.)

"I will say that it's not enough just to undo the damage of the Trump tax law—our tax code wasn't fair before the Trump tax law," Whitehouse said. "Instead, what we must finally do is to . . . decorrupt the tax code so that the wealthy and corporations finally pay a fair share."

Grassley: Democrats couldn't pass their own proposed reforms

Budget Committee ranking Republican Charles Grassley of Iowa, however, was quick to take issue with the tone and substance of Chairman Whitehouse's remarks.

"Initially, I thought today's hearing related to federal revenues was a nice change of pace . . . ," Grassley said. "Unfortunately, . . . an objective review of our tax laws isn't what this hearing is about."

On Whitehouse's stated desired to repeal the preferential tax treatment for carried interest income, Grassley charged that Democratic—not Republican—opposition has stymied reform, even during a period when Democrats had full control of Congress and the White House, and that Republicans have actually been the only party to crimp the carried interest rules when they lengthened the holding period required to receive preferential tax treatment on such income as part of the TCJA.

"To date, the only legislative action taken to limit the use of carried interest was enacted by Republicans as part of the 2017 tax law," Grassley said.

When the TCJA was moving through Congress, “Democrats roundly criticized Republicans for not going far enough on carried interest,” Grassley continued. “Yet, when they had the opportunity to address it as part of their so-called Inflation Reduction Act, they failed.”

It is generally recognized that opposition from certain senators—particularly Sen. Kirsten Sinema, I-Ariz.—ultimately led Democrats to jettison a further tightening of the carried interest rules from the Inflation Reduction Act of 2022 (P.L. 117-169) as that measure was moving through the upper chamber. (Sinema was a Democrat while the Inflation Reduction Act was being negotiated and when it was enacted into law in August of 2022. She changed her party affiliation to Independent at the end of 2022 but continued to receive her committee assignments from the Democrats.)
URL: https://www.congress.gov/117/plaws/publ169/PLAW-117publ169.pdf

Glimmer of bipartisanship on eliminating stepped-up basis

The sole moments of bipartisanship during the hearing came as the panel discussed reforming what’s known as “stepped-up basis” at death—a provision in the tax code that allows heirs to take ownership of inherited assets with a basis equal to their fair market value as of the date of death of the decedent, thus avoiding capital gains tax that would otherwise be due on any gains that accrued, but were not realized, while the decedent held the asset.

Stepped-up basis, combined with a relatively high estate tax exemption (at least compared to recent history), means the preponderance of inherited wealth is shielded from taxation at death.

“Current law—including very large exemptions to the estate tax—entrenches and accelerates wealth inequality,” said Sen. Chris Van Hollen, D-Md. “In fact, it’s one of the larger sources of wealth being passed on from generation to generation in huge amounts, essentially avoiding any taxes and any commitment to the public good in the process.”

That sentiment was shared—albeit not as forcefully—by GOP Sen. Mitt Romney of Utah, who noted that “the idea of eliminating the tax-free stepped-up basis in death is one thing that we ought to look at and probably makes sense.”

Of course, Romney’s view is far from a consensus view among congressional Republicans and Romney himself has announced he will retire from the Senate at the end of the current 118th Congress.

November elections will be key

It is also important to keep in mind that how lawmakers approach tax policy next year will depend largely on the outcome of this November’s presidential and congressional elections.

Not surprisingly, the competing tax policy visions diverge sharply at the presidential level.

For example, many of the left-leaning tax policies espoused by Budget Chairman Whitehouse this week have also been staples of President Biden's budget plans. Among the revenue-raising proposals in Biden's fiscal year 2025 budget blueprint, for example, are calls to increase the corporate income tax rate to 28 percent, increase the excise tax on stock buybacks, impose additional limits on deductions for "excessive" employee remuneration, repeal stepped-up basis, tax capital gain and dividend income at ordinary rates for high-income individuals, and impose a 25 percent minimum tax on the income—including unrealized gains—of taxpayers with wealth over $100 million. (For details on the tax proposals in the administration's FY 2025 budget blueprint, see *Tax News & Views*, Vol. 25, No. 11, Mar. 12, 2025.) President Biden also has called for allowing the bulk of the temporary TCJA provisions to expire on schedule for taxpayers with income greater than $400,000.
URL: https://dhub.deloitte.com/Newsletters/Tax/2024/TNV/240312_1.html

By contrast, the presumptive GOP nominee, former President Donald Trump, has mainly spoken in broad terms about fully extending the TCJA (his administration's signature legislation) and perhaps further reducing the corporate rate from its current level of 21 percent. During a meeting with congressional Republicans in Washington on June 13, Trump floated the possibility of replacing income taxes with more stringent tariffs—something that campaign staff and GOP lawmakers later told reporters was simply one of a range of proposals the former president was considering. Repeating an idea he raised earlier in the week at a rally in Las Vegas, the former president also told Republicans that he would consider exempting tipped wages from income taxes. GOP House Ways and Means Committee member Ron Estes of Kansas told reporters that taxwriters would "have to figure out where that fits" into a tax cut plan, noting that there are "a lot of moving parts."

Reconciliation dreams: The full consolidation of power by either Republicans or Democrats would lay the groundwork for the potential use of so-called "budget reconciliation"—that is, the special parliamentary process by which fiscal legislation can be moved in a manner that is protected from filibuster in the Senate.

Both parties have increasingly leaned on that legislative tactic in recent decades to move major tax and spending bills on a party-line basis. Both the TCJA and the Inflation Reduction Act, for example, were moved under reconciliation.

GOP leaders—particularly House Speaker Mike Johnson and House Majority Leader Steve Scalise, both of Louisiana—have openly expressed interest recently in pursuing the reconciliation process if Republicans hold the House and win back the Senate and White House. Speaker Johnson discussed that strategy during a June 12 closed-door meeting with a contingent of Senate Republicans.

At least one GOP senator, however, commented after the meeting that discussions of budget reconciliation are premature considering that the election is still months away and the outcome is far from certain.

"I love this prediction that Republicans are going to win everything, said Sen. Bill Cassidy, R-La., who sits on the Finance Committee. "That's just incredible. Are you really saying we're going to get the House, Senate, and the presidency?"

Senate Minority Whip John Thune, R-S.D., likewise cautioned this week that House Republicans may not yet grasp the full extent of the restrictions that the reconciliation process imposes on legislation moving through the Senate.

“I do think, at the end of the day, we’re going to have more limitations on what we’re able to use reconciliation for than perhaps a number of our House colleagues would like,” Thune told reporters.

West Virginia Sen. Joe Manchin—a former Democrat who only recently became an Independent and whose opposition to certain Biden administration tax proposals forced Democratic congressional leaders to pivot from the expansive “Build Back Better” proposal that cleared the House in 2021 (but later stalled in the Senate) to the far more narrow Inflation Reduction Act that was enacted into law in 2022—reminded reporters this week that even if one party has unified control of the House, Senate, and White House, moving legislation under budget reconciliation rules does not guarantee an easy path forward or a successful outcome, particularly if the Senate is closely divided and the majority party can afford few, if any, defections.

“Having a trifecta sometimes can be a curse and a blessing,” Manchin said.

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