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# United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510-6200

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April 5, 2017

The Honorable John Koskinen  
Commissioner  
Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, DC 20224

Dear Commissioner Koskinen:

As you are well aware, the Administration's FY 2018 budget for the Internal Revenue Service (IRS) requests a cut of \$239 million from its FY17 level of \$11.2 billion. This is nearly 10 percent lower than the Service's funding level in the FY 2010 budget, and more than 20 percent lower adjusting for inflation. This continued budgetary onslaught can only result in the agency increasingly being unable to provide basic customer service to taxpayers, much less safeguard taxpayer data from cyber criminals who would wreak havoc with their financial livelihoods.

Mr. Mnuchin, testifying before the Senate Finance Committee during his confirmation hearings in January, observed that as a result of sustained budget cuts, the IRS "is under-resourced to perform its duties" and that additional reductions "will indeed hamper our ability to collect revenue." Mr. Mnuchin has separately linked a shrinking agency workforce to falling tax collections, and that restoring this work force is "an important part of fixing the tax gap," which exceeds \$450 billion annually.

Democrats agree. The intent to strip agency resources from enforcement and information technology (IT) systems modernization is very troubling. In particular, IRS estimates that \$6 of taxes owed are collected for every \$1 spent on enforcement. Put another way, \$6 in revenues are potentially lost for every dollar cut from enforcement.

Yet, repeated budget cuts to the IRS have shrunk the audit staff by 30 percent such that a mere 0.7 percent of individual taxpayers ever get audited. Low-income families who claim the EITC are far more likely to be audited than the wealthy and well-connected who take increasingly aggressive tax positions with little fear the IRS will ever take them to task. Similarly, the audit rate for businesses is at its lowest rate since 2004, just 0.5 percent. Meanwhile, IRS' enforcement unit lost 14,000 employees. Cutting enforcement spending, such as by performing fewer audits, will embolden tax cheats and increase deficits, heaping a new burden onto the backs of honest taxpayers. I asked this in a September 2, 2015 letter to you, Mr. Commissioner, and I will ask it again here: Shouldn't the American public view diminished enforcement and reduced IT spending for the IRS for what they really are: tax cuts for tax cheats and kickbacks to crime syndicates?

Furthermore, failing to restore streamlined critical pay authority to the IRS – an authority that allows IRS to fast-track the hiring of the best IT professionals – will result in all such remaining positions to expire by the end of this fiscal year, leaving IRS all the more vulnerable. We should therefore expect a surge in both the number of fraudulent tax returns filed using stolen taxpayer identities and the frequency of cyberattacks launched by crime syndicates on the IRS.

For example, the IRS recently announced (along with Federal Student Aid at the Department of Education) the deactivation of the Data Retrieval Tool. This app allows students to download certain taxpayer information to complete online financial aid forms. The reason for discontinuing the tool was because the IRS noticed a spike in suspicious transactions likely perpetrated by cyber thieves *impersonating* legitimate taxpayers in a bid to access these taxpayers' tax return data. That is, via the dark web or other hacks of public and private databases, these cyber thieves acquired names, addresses, dates of birth, Social Security Numbers, and other taxpayer identifying information so that they could fool a government database into yielding up additional taxpayer data. IRS is undoubtedly now reviewing tens of thousands of submitted tax returns to weed out the fraudulent claims for tax refunds.

I have argued in the past and will reiterate here that I do not know any member of Congress who would respond to a cyberattack on a federal agency like the Department of Defense or Homeland Security by cutting that agency's resources. Indeed, Congressional Appropriators have recommended increased spending for the Department of Homeland Security and the Office of Personnel Management as a response to cyberattacks that targeted these agencies. Shouldn't the IRS budget be similarly increased in response to cyber threats – or do we just not care about taxpayer identity refund fraud?

Instead of calling for hundreds of millions of dollars in additional cuts that will undermine the IRS's ability to defend taxpayer data from increasingly sophisticated cyberattacks, this Administration should heed the call of its own Treasury Secretary to instead restore lost staffing and resources. The White House and Congress should collaborate to heal the IRS so that the IRS can protect taxpayer data and bring its antiquated computer systems into the 21<sup>st</sup> century. To do otherwise – to continue to slash resources to the IRS and similarly-affected government agencies – will eventually hand tax cheats and foreign crime syndicates the financial keys to the country.

Sincerely,

A handwritten signature in blue ink that reads "Ron Wyden". The signature is written in a cursive, flowing style.

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Ron Wyden  
Ranking Member