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United States Senate

COMMITTEE ON FINANCE
WASHINGTON, DC 20510-6200

October 31, 2023

The Honorable Danny Werfel
Commissioner, Internal Revenue Service
1111 Constitution Avenue, N.W.
Washington, D.C. 20224

Dear Commissioner Werfel:

I am writing to highlight the importance of Internal Revenue Service (IRS) funding, particularly in light of the recent terrorist attacks by Hamas.

The horrific terrorist attacks in Israel on October 7, which left more than 1,400 innocent Israelis and at least 30 Americans dead, thousands wounded, and hundreds taken hostage underline the importance of robust IRS funding.¹ Although sanctioned by the U.S. government, Hamas has reportedly used fake charities² and cryptocurrency³ to evade sanctions and fund its attacks. The IRS Tax Exempt and Government Entities Division can police fake charities and the IRS Criminal Investigation Division (CI) is one of the few law enforcement agencies with the skills to address sanctions evasion done via cryptocurrency.

CI successfully seized more than \$3.5 billion of illicit cryptocurrency in fiscal year 2021 and \$7 billion in fiscal year 2022.⁴ It also used its unique expertise to assist with interagency efforts to enforce sanctions related to Russia's invasion of Ukraine.⁵

¹ <https://www.ajc.org/attackonisrael>.

² <https://home.treasury.gov/news/press-releases/js672>.

³ <https://www.cnn.com/2023/10/12/us/hamas-funding-crypto-invs/index.html>.

⁴ <https://www.irs.gov/newsroom/irs-spotlights-criminal-investigation-law-enforcement>; <https://www.irs.gov/compliance/criminal-investigation/irs-ci-releases-fy22-annual-report-highlighting-more-than-2550-investigations-90-conviction-rate>.

⁵ <https://www.irs.gov/pub/irs-pdf/p3583.pdf>.

Yet due to budget cuts, CI lost 26 percent of its special agents between 2010 and 2021.⁶ As a result, it conducted 46 percent fewer criminal investigations, including 48 percent fewer tax evasion investigations, 50 percent fewer investigations involving other financial crimes, such as terrorist financing, sanctions evasion, and money laundering, and 31 percent fewer narcotics-related investigations.⁷

The President's fiscal year (FY) 2024 budget requested \$14.1 billion for the IRS, but neither the House (H.R. 4664) nor the Senate appropriations bills (S. 2309), would provide the IRS with more than \$12.3 billion. Even \$12.3 billion is over \$3 billion less than the IRS received for FY 2010 (in 2021 dollars). This level of funding would perpetuate the damage done by the last decade of cuts, during which audit rates fell by 77 percent for millionaires, while the tax gap grew to over \$600 billion each year, with the top 1 percent accounting for more than 25 percent of the unpaid taxes.⁸

The Inflation Reduction Act (IRA) provided the IRS with \$79.4 billion over ten years to improve service, to reduce the backlog, to modernize its systems, and to ensure large corporations and the wealthy pay what they owe. This funding will help the IRS address fake charities, sanctions evasion, money laundering by terrorists, drug dealers and human traffickers, and other financial crimes.

But IRA funding is not a replacement for the IRS's annual appropriation. Congress has already rescinded \$1.4 billion of IRS' IRA funding, and an agreement between President Biden and former Speaker McCarthy would rescind another \$20 billion. Other bills would rescind \$25 billion or more of this crucial funding. According to the CBO, rescinding just \$25 billion would increase the deficit by \$23.8 billion and reduce revenue by \$48.8 billion.⁹

These cuts would be a budget-busting gift to terrorists and tax cheats. It would be more responsible for Congress to extend IRA funding for two years as proposed by the President (\$14.3 billion in FY 2032 and \$14.8 billion in FY 2033), which would raise \$134 billion according to the Treasury Department.¹⁰

Please provide a list of the ways that the cuts being contemplated in Congress would undercut the IRS's ability to address these concerns, as well as the IRS's ability to improve service, modernize its technology, and to ensure large corporations and the wealthy pay what they owe. Please include how the cuts would affect the IRS's ability to address fake charities, sanctions evasion, money laundering by terrorists, drug dealers and human traffickers, and other financial crimes.

⁶ <https://www.irs.gov/pub/irs-soi/11db30ps.xls>; <https://www.irs.gov/pub/irs-soi/22dbs06t32ps.xlsx>.

⁷ <https://www.irs.gov/pub/irs-soi/10db18ci.xls>; <https://www.irs.gov/pub/irs-soi/22dbs03t24ci.xlsx>.

⁸ <https://home.treasury.gov/news/featured-stories/the-case-for-a-robust-attack-on-the-tax-gap>. The 2021 tax gap is \$688 billion, according to the IRS's most recent projections. <https://www.irs.gov/newsroom/irs-updates-tax-gap-projections-for-2020-2021-projected-annual-gap-rises-to-688-billion>.

⁹ https://www.cbo.gov/system/files/2023-10/Whitehouse_letter-SA1226_10-16-2023_1.pdf. Other estimates suggest a \$20 billion cut to the IRS enforcement budget would reduce revenue by more than \$240 billion.

<https://www.washingtonpost.com/opinions/interactive/2023/irs-enforcement-costs-congress-funding/>.

¹⁰ <https://home.treasury.gov/policy-issues/tax-policy/revenue-proposals>.

Thank you for your dedication and public service. I look forward to your response.

Sincerely,



Ron Wyden
Chairman
Committee on Finance