



Section of Taxation

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January 19, 2007

The Honorable José Serrano
Chairman
House Subcommittee on Financial
Services and General Government
1040A Longworth House Office Bldg.
Washington, DC 20515

The Honorable Ralph Regula
Ranking Member
House Subcommittee on Financial
Services and General Government
2306 Rayburn House Office Bldg.
Washington, DC 20510

Re: Internal Revenue Service Funding

Dear Chairman Serrano and Congressman Regula:

On behalf of the American Bar Association, I respectfully request your assistance in securing, at a minimum, full funding of the Internal Revenue Service (the "IRS") budget proposals advanced by the Administration for Fiscal Year 2007. The American Bar Association has consistently supported adequate funding of the Internal Revenue Service to carry out its missions of taxpayer service and enforcement of federal tax statutes. The American Bar Association has more than 400,000 members who provide legal services in every state of the Union. Over 19,000 members of the Association are also members of the Section of Taxation.

The Administration's 2007 Budget includes a modest increase in funding for the IRS over the FY 2006 enacted level. Congress has not yet approved an IRS budget for FY 2007 although Congress has provided for interim funding of the IRS through February 15. We understand that Congress is considering the passage of a resolution for the balance of FY 2007 that would keep the IRS's budget frozen at the FY 2006 funding level.

We respectfully submit that a budget freeze would damage the IRS's ability to accomplish its service and enforcement missions and handicap its efforts to address the tax gap and thus reduce the federal budget deficit. Given the level of complexity of our tax laws, the IRS needs substantial and increasing resources to provide taxpayers with accurate information on tax law provisions affecting them. The IRS fulfills this task in a number of ways, e.g., telephonic call-in lines, walk-in information sites, print publications, and, increasingly electronic communications. All of these activities perform vital functions in providing taxpayers with the information they need to fulfill their compliance responsibilities and to obtain the benefits to which the law entitles them. The IRS Oversight Board has found, and various taxpayer surveys confirm, that the IRS has been making significant improvements in this area. But the IRS requires adequate funding to determine what services taxpayers need and to deliver these services.

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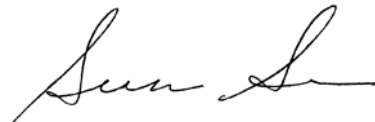
The IRS must also have adequate funding to perform its fundamental enforcement mission. To be effective, the IRS enforcement efforts must be broad-based in two senses. First, an enforcement presence must be apparent throughout the economy. A perception that the IRS's enforcement efforts are too narrowly targeted leads to noncompliance in areas perceived to be out of the spotlight. Second, funding must be sufficient for all those in the IRS whose primary mission is compliance, *i.e.*, adding revenue agents, appeals officers, tax litigators, and revenue officers to do their jobs. Neglect of any of these inevitably compromises the ability of the others to fulfill their compliance responsibilities.

Many in both the private and government sectors of the tax community, including senior IRS and Treasury officials, the Internal Revenue Service Oversight Board, the National Taxpayer Advocate, and members of Congress, have expressed grave concerns about the tax gap. The IRS is attempting to address the tax gap through increased taxpayer services, enhanced and smarter enforcement activities, and more effective administration. These efforts, however, require funding.

In addition to these concerns, the late passage of a tax extender bill on December 9 of last year has put a considerable burden on the IRS. For example, we understand that the IRS will incur substantial costs for a special mailing of sales tax deduction tables and to reprogram its processing systems.

We believe that adequate funding of the IRS is vital. Accordingly, we urge you and your colleagues to fully fund the President's budget request for the IRS and to give careful consideration to the funding proposals by the Internal Revenue Service Oversight Board and the Senate Appropriations Committee. We would be pleased to provide any assistance that you or your staff would find helpful in considering the IRS budget. Thank you for your consideration.

Sincerely,



Susan P. Serota
Chair, Section of Taxation

Enclosure

cc: Honorable Henry M. Paulson, Jr., Secretary, Treasury Department
Honorable Mark W. Everson, Commissioner, Internal Revenue Service
Honorable Eric Solomon, Assistant Secretary (Tax Policy), Treasury Department
Senator Robert C. Byrd, Chair, Senate Appropriations Committee
Senator Thad Cochran, Ranking Member, Senate Appropriations Committee
Representative David R. Obey, Chair, House Appropriations Committee
Representative Jerry Lewis, Ranking Member, House Appropriations Committee
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Mr. Thomas A. Barthold, Acting Chief of Staff, Joint Committee on Taxation
Ms. Nina Olson, National Taxpayer Advocate, Internal Revenue Service
Mr. Raymond T. Wagner, Jr., Chair, IRS Oversight Board, Internal Revenue Service