

Rendering Unto Caesar What Is Owed: Collecting Taxes Receivable

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In this article, the authors explain why the first infusion of funds to the IRS under the Build Back Better Act should be devoted to rebuilding the agency's collection function.

The IRS is underfunded, understaffed, and underperforming as the result of resource constraints.¹ The House-passed Build Back Better Act (H.R. 5376), now under consideration in the Senate, would appropriate an extra \$78.9 billion to the IRS over the next 10 years to generate an

estimated additional \$200 billion in federal tax revenue.² The money cannot start flowing too soon. A decade of budget cuts and congressional scrutiny have led to an exodus of employees, hampering the agency's dual mission of providing customer service to law-abiding taxpayers and enforcing the IRC against tax evaders.³

Assuming additional funds are forthcoming, where should the first infusion of funds be allocated? The consensus is that the first funds should go to hiring additional auditors to narrow the tax gap. The tax gap is the amount of tax that the IRS fails to collect annually, primarily because of fraudulent underreporting of income by individual taxpayers.⁴ The IRS estimates that the tax gap has grown from \$441 billion in 2011⁵ to \$1 trillion in 2021.⁶ Therefore, the logic is straightforward: Hire more auditors to conduct more audits. More audits will result in more assessments against noncompliant taxpayers. More assessments will close the tax gap.

Ample evidence supports this logic. As shown in Table 1 below, the number of tax returns examined fell from 1,589,877 for returns filed during tax year 2010 to 799,009 for those filed during tax year 2016, a drop of 49.7 percent.⁷

² Congressional Budget Office, "The Effects of Increased Funding for the IRS" (Sept. 2, 2021).

³ IRS Commissioner Charles Rettig's letter to Senate Finance Committee member Elizabeth Warren, D-Mass. (Aug. 27, 2021); and CBO, "Trends in the Internal Revenue Service's Funding and Enforcement" (July 8, 2020).

⁴ IRS Publication 1415, "Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2011-2013" (Sept. 2019).

⁵ *Id.*

⁶ Sarah Hansen, "IRS Commissioner Says Tax Gap Could Exceed \$1 Trillion Per Year," *Forbes*, Apr. 13, 2021.

⁷ IRS Data Book 2020, at Table 17, "Examination Coverage and Recommended Additional Tax After Examination, by Type and Size of Return, Tax Years 2010-2018."

¹ Robert A. Warren and Timothy J. Fogarty, "More Tax Cops Are Needed to Close the Tax Gap," *Tax Notes Federal*, Sept. 13, 2021, p. 1763.

Table 1. Schedule of Examinations and Assessments — Tax Years 2010 Through 2020^a

Tax Year	Number of Returns Examined and Closed	Recommended Additional Tax (thousands of dollars)	Fiscal Year	Number of Revenue Agents
2010	1,589,877	\$26,823,457	2010	14,636
2011	1,436,754	\$24,196,897	2011	13,780
2012	1,298,797	\$25,206,564	2012	12,965
2013	1,050,112	\$17,306,211	2013	12,194
2014	949,235	\$14,148,112	2014	11,401
2015	926,727	\$10,983,136	2015	10,630
2016	799,009	\$7,346,784	2016	10,263
2017 ^c	551,223	\$3,610,976	2017	9,518
2018	242,703	\$1,421,315	2018	8,858
2019 ^d	NA	NA	2019	8,721
2020	NA	NA	2020	8,249

^aData is from IRS Data Book 2020, at Table 17, “Examination Coverage and Recommended Additional Tax After Examination, by Type and Size of Return, Tax Years 2010-2018,” except by revenue agent figures, which is by fiscal year.

^bRevenue agent staffing figures were provided by the IRS on September 16 in response to a Freedom of Information Act request.

^cData for returns filed in tax years 2017 and 2018 are incomplete because the statute of limitations had not expired by the end of fiscal year 2020.

^dExamination data for returns filed in tax years 2019 and 2020 were unavailable.

During that same period, the recommended additional tax dropped from approximately \$26.8 billion to \$7.3 billion,⁸ an astounding reduction of 72.6 percent even before adjusting for inflation. During roughly that same time frame, the number of revenue agents (field auditors who handle the most sophisticated audits) dropped 29.9 percent, from 14,636 in fiscal 2010 to 10,263 in fiscal 2016.⁹ The revenue agent deficit grows to 43.6 percent if extended to fiscal 2020.

While closing the tax gap is critical to restoring the federal budget to some semblance of sanity, it is the wrong place to start investing the proposed additional funds. Instead, the first infusion of funds should target collecting taxes already identified as owed to the IRS. This is

represented by the “taxes receivable” account on the IRS’s balance sheet. As of September 30, 2020, noncompliant taxpayers owed the IRS \$427 billion in back taxes, interest, and penalties.¹⁰ This amount relates to past tax years. These amounts are not in dispute. They are transactions to which taxpayers have conceded the evidentiary questions that created this debt to the government based on established law. Despite the certainty of the liability, the IRS expects to collect only \$236 billion, or 55.3 percent, of this outstanding balance.¹¹

This suggests a much different problem than those usually associated with the tax gap. In this article, we explain the origin and effect of this deficit in tax collection capacity and why rebuilding the IRS collection function back better

⁸ *Id.*

⁹ Revenue agent staffing figures were provided by the IRS on or about September 16, 2021, in response to a Freedom of Information Act request.

¹⁰ Government Accountability Office, “Financial Audit: IRS’s FY 2020 and FY 2019 Financial Statements,” GAO-21-162 (Nov. 2020).

¹¹ *Id.*

Table 2. Schedule of Taxes Receivable — Fiscal 2009 Through Fiscal 2020^a (dollars in billions)

Description	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Gross federal taxes receivable	\$427	\$369	\$218	\$197	\$178	\$171	\$156	\$159	\$152	\$147	\$138
Less: allowance for uncollectible taxes receivable	(\$191)	(\$225)	(\$160)	(\$145)	(\$129)	(\$130)	(\$116)	(\$124)	(\$113)	(\$112)	(\$103)
Net taxes receivable	\$236	\$144	\$58	\$52	\$49	\$41	\$40	\$35	\$39	\$35	\$35
Percentage of uncollectible gross federal taxes receivable ^b	44.7%	61%	73.4%	73.6%	72.5%	76%	74.4%	78%	74.3%	76.2%	74.6%

^aData is from note 5 of the IRS's financial statements for fiscal 2010 to fiscal 2020. See GAO, "Financial Audit: IRS's Fiscal Years 2010 and 2009 Financial Statements," GAO-11-142 (Nov. 2010); GAO, "Financial Audit: IRS's Fiscal Years 2011 and 2010 Financial Statements," GAO-12-165 (Nov. 2011); GAO, "Financial Audit: IRS's Fiscal Years 2012 and 2011 Financial Statements," GAO-13-120 (Nov. 2012); GAO, "Financial Audit: IRS's Fiscal Years 2013 and 2012 Financial Statements," GAO-14-169 (Dec. 2013); GAO, "Financial Audit: IRS's Fiscal Years 2014 and 2013 Financial Statements," GAO-15-173 (Nov. 2014); GAO, "Financial Audit: IRS's Fiscal Years 2015 and 2014 Financial Statements," GAO-16-146 (Nov. 2015); GAO, "Financial Audit: IRS's Fiscal Years 2016 and 2015 Financial Statements," GAO-17-140 (Nov. 2016); GAO, "Financial Audit: IRS's Fiscal Years 2017 and 2016 Financial Statements," GAO-18-165 (Nov. 2017); GAO, "Financial Audit: IRS's Fiscal Years 2018 and 2017 Financial Statements," GAO-19-150 (Nov. 2018); GAO, "Financial Audit: IRS's FY 2019 and FY 2018 Financial Statements," GAO-20-159 (Nov. 2019); and GAO, "Financial Audit: IRS's FY 2020 and FY 2019 Financial Statements," GAO-21-162 (Nov. 2020).

^bCalculated by dividing the allowance for uncollectible taxes accounts by gross accounts receivable.

is necessary before additional auditors are hired and IRS collection is flooded with new assessments for which it will not have the capacity to collect.

The History of IRS Taxes Receivable

The Chief Financial Officers Act of 1990 authorizes the Government Accountability Office to audit the financial statements of the IRS annually in accordance with generally accepted accounting principles.¹² The audit reports published by the GAO for fiscal year 2010 through fiscal year 2020 were reviewed for this article. Information from those audits is shown in Table 2.¹³ As indicated, gross taxes receivable ballooned from \$138 billion in fiscal 2010 to \$427 billion in fiscal 2020, an almost 210 percent increase before adjusting for inflation. Moreover, the IRS anticipated writing off 44.7 percent of the gross federal taxes receivable for fiscal 2020, a potential loss of \$191 billion.

Looking at the number and dollar value of delinquent accounts amplifies the problem. As shown in Table 3, in fiscal 2010 the IRS had 10.4 million delinquent accounts, totaling \$114.2 billion, from timely filed returns. By fiscal 2020 the number of delinquent accounts had been reduced to 8.4 million taxpayers owing, coincidentally, \$114.3 billion. If the \$114.3 billion is adjusted for inflation back to 2010 dollars, the delinquent amount outstanding is \$96.1 billion. While one may applaud the revenue officers' reduction of delinquent accounts and the inflation-adjusted delinquent balance, note that fewer audits by examination personnel resulted in fewer new accounts that may become delinquent (Table 1).

¹²*Id.*

¹³See Table 2, at note a.

Table 3. Schedule of Delinquent Accounts on Timely Filed Returns With Additional Amount Due – Fiscal 2010 Through Fiscal 2020 (dollars in billions)

Fiscal Year	Ending Number of Delinquent Accounts (in millions) ^a	(A)	(B)	(A) * (B)
		Balance of Assessed Tax, Penalties, and Interest ^b	Inflation Factor Based on Buying Power in 2010 Dollars ^c	Balance of Assessed Tax, Penalties, and Interest Adjusted for Inflation
2010	10.4	\$114.2	1	\$114.2
2011	10.8	\$116.3	0.97	\$112.8
2012	11.5	\$124.3	0.95	\$118.1
2013	11.7	\$120.7	0.94	\$113.5
2014	12.5	\$130.6	0.92	\$120.2
2015	13.4	\$137.3	0.92	\$126.3
2016	14	\$138.2	0.9	\$124.4
2017	14.1	\$131.1	0.89	\$116.7
2018	13.2	\$128.2	0.86	\$110.3
2019	11.2	\$125.8	0.85	\$106.9
2020	8.4	\$114.3	0.84	\$96.01

^aIRS Data Book 2020; IRS Data Book 2019; IRS Data Book 2018; IRS Data Book 2017; IRS Data Book 2016; IRS Data Book 2015; IRS Data Book 2014; IRS Data Book 2013; IRS Data Book 2012; IRS Data Book 2011; and IRS Data Book 2010; all at “Delinquent Collection Activities.”

^b*Id.*

^cBureau of Labor Statistics, “CPI Inflation Calculator.”

The dramatic rise in taxes receivable and the inability of the IRS collection function to substantially reduce delinquent accounts even in a recovering economy highlights the near collapse of enforcement actions precipitated by steep cuts in funding. Table 4 shows that the budget for salaries and benefits for examination and collection personnel dropped 25.6 percent from fiscal 2010 to fiscal 2020 when adjusted for inflation. This plummet in funding led to a 50.8 percent reduction in the number of revenue officers and inhibited the ability of the IRS to hire, train, and retain enough new revenue officers to replace those leaving. The IRS employed 5,922 revenue officers on October 1, 2010.¹⁴ Over the next 10 fiscal years, the IRS hired and trained 825 new revenue officers hired externally and an unspecified number of revenue officers hired

internally,¹⁵ while losing 4,770 revenue officers to retirement (2,539), transfer to other government jobs (1,154), resignation (617), termination (352), death (76), and other miscellaneous reasons (32).¹⁶

As expected, cutting the number of revenue officers in half, along with reductions in other collection personnel who handle less-sophisticated collection cases, resulted in a collapse of enforcement actions measured by the number of tax liens, levies, seizures, and referrals to the IRS Criminal Investigation division. As noted in Table 5, these enforcement actions have fallen by 73.5 percent, 89 percent, 87.3 percent,

¹⁵ Information on revenue officer external hires was provided by the IRS on September 16, 2021, in response to a FOIA request. A subsequent request for the number of internal hires is still outstanding.

¹⁶ Information on revenue officer attrition was provided by the IRS on September 16, 2021, in response to a FOIA request. The IRS could not provide an estimate of how many revenue officers transferred to other job series in fiscal 2010.

¹⁴ IRS Data Book 2010.

Table 4. Budget for Enforcement Personnel Adjusted for Inflation (dollars in billions)

Fiscal Year	(A)	(B)	(A) * (B)	Number of Revenue Officers at End of Fiscal Year ^c
	Examination and Collection Budget for Personnel Compensation and Benefits ^a	Inflation Factor Based on Buying Power in 2010 Dollars ^b	Total Personnel Budget For Enforcement Personnel Adjusted for Inflation	
2010	\$4.3	1	\$4.3	5,922
2011	\$4.4	0.97	\$4.3	5,447
2012	\$4.2	0.95	\$4	5,066
2013	\$4	0.94	\$3.8	4,681
2014	\$4	0.92	\$3.7	4,353
2015	\$3.8	0.92	\$3.5	3,719
2016	\$3.8	0.9	\$3.4	3,547
2017	\$3.7	0.89	\$3.3	3,330
2018	\$3.7	0.86	\$3.2	3,028
2019	\$3.6	0.85	\$3.1	3,231
2020	\$3.8	0.84	\$3.2	2,913
Percentage change from fiscal 2010 to fiscal 2020			(25.6%)	(50.8%)
^a IRS Data Book 2020; IRS Data Book 2019; IRS Data Book 2018; IRS Data Book 2017; IRS Data Book 2016; IRS Data Book 2015; IRS Data Book 2014; IRS Data Book 2013; IRS Data Book 2012; IRS Data Book 2011; IRS Data Book 2010; all at "Costs Incurred by Budget Activity." ^b Bureau of Labor Statistics, "CPI Inflation Calculator." ^c IRS Data Books 2010 through 2020, <i>supra</i> note a, at "Personnel Summary, by Employment Status, Budget Activity, and Selected Personnel Type."				

and 57.2 percent, respectively, from fiscal 2010 through fiscal 2020.¹⁷

The ultimate measure of the IRS collection function is how much they actually collect in unpaid taxes through enforcement actions, particularly from delinquent accounts. Table 6 shows that in fiscal 2010 IRS collection enforcement actions resulted in the collection of \$32.2 billion. In fiscal 2020 the IRS collected \$33.6 billion in inflation-adjusted dollars with only about half the number of revenue officers it had in fiscal 2010. This information may show that revenue officers (and other lower-level collection personnel) have become more efficient at collecting taxes in the last decade because of better

technology, training, or other unknown factors. However, it may also indicate that the recovering economy made it easier to collect outstanding debts through enforcement actions.

Conclusion

The U.S. government has a twofold tax administration problem. First, the tax gap is growing partly because the IRS fails to conduct enough audits to deter tax scofflaws from underreporting their income. Second, the IRS is failing to collect an ever-growing portion of the taxes already acknowledged as owed to it, as demonstrated by the explosion of the balance of net taxes receivable — from \$35 billion in fiscal 2010 to \$236 billion in fiscal 2020, as shown in Table 2. Both problems are exacerbated by a lack of resources. This is rectifiable, at least in part, through an increase in funding.

¹⁷The percentage change is calculated by dividing the number shown in Table 5 as the "Difference between fiscal 2010 and fiscal 2020" by the number reported for fiscal 2010.

Table 5. Summary of Enforcement Actions by Collection Personnel — Fiscal 2010 Through Fiscal 2020

Fiscal Year	Number of Federal Tax Liens ^a	Number of Third-Party Levies ^b	Number of Seizures ^c	Number of Referrals to CI ^d
2010	1,096,376	3,606,818	605	222
2011	1,042,230	3,748,884	776	211
2012	707,768	2,961,162	733	206
2013	602,005	1,855,095	547	173
2014	535,580	1,995,987	432	152
2015	515,247	1,464,026	426	155
2016	470,602	869,196	436	151
2017	446,378	590,249	323	158
2018	410,220	639,025	275	128
2019	543,604	782,735	228	134
2020	291,081	396,269	77	95
Difference between fiscal 2010 and fiscal 2020	(805,295)	(3,210,549)	(528)	(127)
Percentage change from fiscal 2010 to fiscal 2020	(73.5%)	(89%)	(87.3%)	(57.2%)

^aIRS Data Book 2020; IRS Data Book 2019; IRS Data Book 2018; IRS Data Book 2017; IRS Data Book 2016; IRS Data Book 2015; IRS Data Book 2014; IRS Data Book 2013; IRS Data Book 2012; IRS Data Book 2011; IRS Data Book 2010; all at "Delinquent Collection Activities."

^b*Id.*

^c*Id.*

^dThese figures were compiled from data maintained by CI's management information system and provided to us in response to several FOIA requests filed from 2018 through 2020.

The exponential increase in the net taxes receivable, coupled with the IRS collection function's inability to reduce the delinquent account balance, suggests that hundreds of billions of dollars of tax receivables are low-hanging fruit that could be easily picked if Congress allocated sufficient resources to hire enough revenue officers to work in the vineyard of tax administration. Once the IRS collection

function has enough capacity to handle more assessments, IRS leadership could then deploy additional funds to hire more audit and examination personnel to close the tax gap. Only by deploying the additional funds in this order can the IRS avoid taxing its collection function beyond its capacity, and leaving the tax receivables already on the books to rot on the vine until the statutes of limitation have expired.

**Table 6. Schedule of Additional Tax Collections Through Enforcement Actions —
Fiscal 2010 Through Fiscal 2020 (dollars in billions)**

Fiscal Year	(A)	(B)	(A) + (B)	(C)	[(A) + (B)] * (C)
	Net Total Tax Collected From Returns Filed With Additional Tax Due ^a	Amount Collected With Delinquently Filed Returns ^b	Net Tax Collected Through Collection Enforcement	Inflation Factor Based on Buying Power in 2010 Dollars	Net Tax Collected Through Enforcement Action Adjusted for Inflation Back to Fiscal 2010
2010	\$29.8	\$2.4	\$32.2	1	\$32.2
2011	\$31	\$1.9	\$32.9	0.97	\$31.9
2012	\$31.1	\$1.7	\$32.8	0.95	\$31.2
2013	\$32.5	\$1.7	\$34.2	0.94	\$32.1
2014	\$34.2	\$1.9	\$36.1	0.92	\$33.2
2015	\$35.5	\$2.3	\$37.8	0.92	\$34.8
2016	\$37.4	\$2.3	\$39.7	0.9	\$35.7
2017	\$40	\$1.6	\$41.6	0.89	\$37
2018	\$40.6	\$1.4	\$42	0.86	\$36.1
2019	\$44	\$1.9	\$45.9	0.85	\$39
2020	\$38.5	\$1.5	\$40	0.84	\$33.6
Difference between fiscal 2010 and fiscal 2020					\$1.4
Percentage change from fiscal 2010 to fiscal 2020					4.3%
^a IRS Data Book 2020; IRS Data Book 2019; IRS Data Book 2018; IRS Data Book 2017; IRS Data Book 2016; IRS Data Book 2015; IRS Data Book 2014; IRS Data Book 2013; IRS Data Book 2012; IRS Data Book 2011; IRS Data Book 2010; all at "Delinquent Collection Activities." ^b <i>Id.</i>					

