How the IRS Was Gutted

by Paul Kiel and Jesse Eisinger
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An eight-year campaign to slash the agency's budget has left it understaffed, hamstrung and operating with archaic equipment. The result: billions less to fund the government. That's good news for corporations and the wealthy.

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In the summer of 2008, William Pfeil made a startling discovery: Hundreds of foreign companies that operated in the U.S. weren't paying U.S. taxes, and his employer, the Internal Revenue Service, had no idea. Under U.S. law, companies that do business in the Gulf of Mexico owe the American government a piece of what they make drilling for oil there or helping those that do. But the vast majority of the foreign companies weren't paying anything, and taxpaying American companies were upset, arguing that it unfairly allowed the foreign rivals to underbid for contracts.

Pfeil and the IRS started pursuing the non-U.S. entities. Ultimately, he figures he brought in more than $50 million in previously unpaid taxes over the course of about five years. It was an example of how the tax-collecting agency is supposed to work.

But then Congress began regularly reducing the IRS budget. After 43 years with the agency, Pfeil — who had hoped to reach his 50th anniversary — was angry about the "steady decrease in budget and resources" the agency had seen. He retired in 2013 at 68.

After Pfeil left, he heard that his program was being shut down. "I don't blame the IRS," Pfeil said. "I blame the Congress for not giving us the budget to do the job."

The IRS Budget Has Declined

Note: 2018 dollars.

Source: *IRS and Congress.gov*

Had the billions in budget reductions occurred all at once, with tens of thousands of auditors, collectors and customer service representatives streaming out of government buildings in a single day, the collapse of the IRS might have gotten more attention. But there have been no mass layoffs or dramatic announcements. Instead, it's taken eight years to bring the agency that funds the government this low. Over time, the IRS has slowly transformed, one employee departure at a time.

The result is a bureaucracy on life support and tens of billions in lost government revenue. ProPublica estimates a toll of at least $18 billion every year, but the true cost could easily run tens of billions of dollars higher.

The cuts are depleting the staff members who help ensure that taxpayers pay what they owe. As of last year, the IRS had 9,510 auditors. That's down a third from 2010. The last time the IRS had fewer than 10,000 revenue agents was 1953, when the economy was a seventh of its current size. And the IRS is still shrinking. Almost a third of its remaining employees will be eligible to retire in the next year, and with morale plummeting, many of them will.

The IRS conducted 675,000 fewer audits in 2017 than it did in 2010, a drop in the audit rate of 42 percent. But even those stark numbers don't tell the whole story, say current and former IRS employees: Auditors are stretched thin, and they're often forced to limit their investigations and move on to the next audit as quickly as they can.

Without enough staff, the IRS has slashed even basic functions. It has drastically pulled back from pursuing people who don't bother filing their tax returns. New investigations of "nonfilers," as they're called, dropped from 2.4 million in 2011 to 362,000 last year. According to the inspector general for the IRS, the reduction results in at least $3 billion in lost revenue each year. Meanwhile, collections from people who do file but don't pay have plummeted. Tax obligations expire after 10 years if the IRS doesn't pursue them. Such expirations were relatively infrequent before the budget cuts began. In 2010, $482 million in tax debts lapsed. By 2017, according to internal IRS collection reports, that figure had risen to $8.3 billion, 17 times as much as in 2010. The IRS' ability to investigate criminals has atrophied as well.

Investigations of People Who Don't File a Return Have Plunged
Note: Reflects new taxpayer delinquency investigations opened each fiscal year.
Source: *IRS*

Corporations and the wealthy are the biggest beneficiaries of the IRS' decay. Most Americans' interaction with the IRS is largely automated. But it takes specialized, well-trained personnel to audit a business or a billionaire or to unravel a tax scheme — and those employees are leaving in droves and taking their expertise with them. For the country's largest corporations, the danger of being hit with a billion-dollar tax bill has greatly diminished. For the rich, who research shows evade taxes the most, the IRS has become less and less of a force to be feared.

The story has been different for poor taxpayers. The IRS oversees one of the government's largest anti-poverty programs, the earned income tax credit, which provides cash to the working poor. Under continued pressure from Republicans, the IRS has long made a priority of auditing people who receive that money, and as the IRS has shrunk, those audits have consumed even more resources, accounting for 36 percent of audits last year. The credit's recipients — whose annual income is typically less than $20,000 — are now examined at rates similar to those who make $500,000 to $1 million a year. Only people with incomes above $1 million are examined much more frequently.

Audits of the Rich Have Dropped Much Faster Than Audits of the Poor

201120171.2%0.7%: Under 25K (bottom 36%)2.7%0.7%: 200K-500K8%2.5%: 500K+ (top 1%)

Note: The audit rate for taxpayers with income between $25,000 and $200,000 (the only group not included above) dropped from 0.81 percent in 2011 to 0.48 percent in 2017.

Source: *ProPublica analysis of IRS data*

We submitted a detailed list of questions to the IRS and asked about the budget cuts' effects on the agency's enforcement efforts. The agency replied with a brief statement. "The IRS has substantial resources to identify and audit noncompliant taxpayers and continues to deter those attempting to evade their legal obligations," it said.

In ProPublica's interviews with dozens of tax professionals and more than 50 former and current IRS employees — part of an ongoing series on the state of tax enforcement — many agency veterans wondered whether the damage of the past several years will ever be undone. And they had a greater worry: that the American public will inevitably realize how weak the IRS has become.

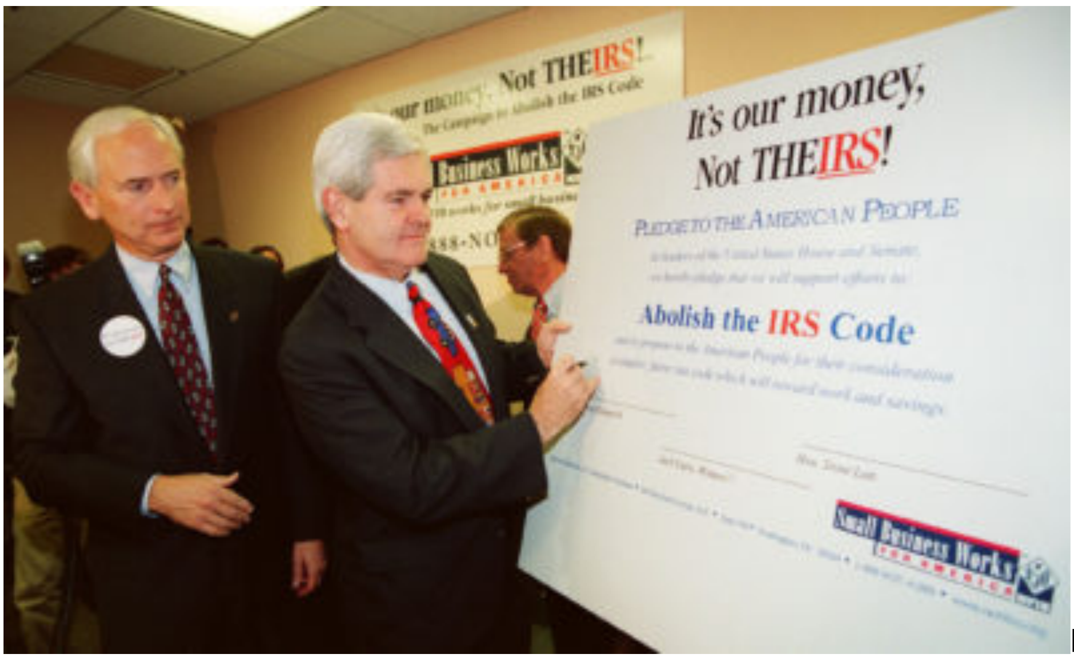
The effects of an explosion in tax cheating would be dire. The nation's already soaring budget deficit would surge by hundreds of billions of dollars more, pushing it well past $1 trillion. Commissioners of the IRS, starting with President George W. Bush's appointee, Douglas Shulman, have warned Congress about a crisis like this since the budget cuts began, in 2011. But after eight years, Republican lawmakers, who are chiefly responsible for the reductions, show no signs that they think the danger is urgent. By the time the danger becomes indisputable, immense harm will already have been done.

"In the last few years, it was really frustrating," said Pam Reicks, a former manager at the IRS who, until she retired at the end of last year, oversaw a program to audit wealthy taxpayers with undeclared offshore bank accounts. "It's like in the fall when you bob for apples," she told us. "You've got a tub of apples and can't use your hands to grab them. You can see all this abuse and fraud, and people not paying their taxes, but can't use your hands to get it."

The IRS has never been a popular cause on Capitol Hill. But Democrats and Republicans long shared a grudging consensus that the agency's basic work of tax collection deserved protection.

That changed when the Republican Party came into power in 1994 and Newt Gingrich became the speaker of the House. The new majority's main priority was tax cuts, and vilifying the IRS helped its case. Some conservatives favored a "fair tax," a consumption tax based on purchases. Proponents said that this simplified approach to taxation would allow them to "abolish" the IRS.

The notion wasn't a fringe position within the party. Former Sen. Richard Lugar of Indiana, a respected mainstream Republican, [ran for president](#) in 1996 on a platform of abolishing the IRS. A Republican congressman in 1998 introduced a bill to repeal the Internal Revenue Code by 2002. "Abolish the IRS" remains a potent talking point. Ted Cruz, the Republican senator from Texas, [campaigned on the slogan](#) when he ran for president in 2016.



Newt Gingrich, then speaker of the House, prepares to sign a petition in 1997 to abolish the current U.S. tax code. (Stephen Jaffe/AFP/Getty Images)

In 1997 and 1998, the Republican-controlled Senate held a series of dramatic hearings on alleged abuses by the IRS. Agency employees testified behind black curtains with their voices disguised, like Mafia snitches, to protect their identity. The testimony depicted an organization run amok, with claims of biased examiners and lurid tales of agents in flak jackets storming establishments. One restaurant owner told of a raid to seize business records at the home of an employee, during which agents forced a teenage boy to the floor at gunpoint and made a group of teenage girls at a slumber party get dressed "under the watchful eyes of male agents." A USA Today headline read: "Witnesses Accuse IRS Investigators of 'Gestapo-like' Raids."

Congress followed the hearings with a sweeping overhaul of the agency, limiting the IRS' collection powers and independence and giving taxpayers new protections. In the Senate, the reform bill passed 97–0, and President Bill Clinton signed it.

It was only afterward that the Government Accountability Office debunked the allegations of IRS abuses. “Generally, we found no corroborating evidence that the criminal investigations described at the hearing were retaliatory against the specific taxpayer,” the report stated. “In addition, we could not independently substantiate that IRS employees had vendettas against these taxpayers.”

By then it was too late. Reeling from the new law and the public attacks, IRS audits and collections tumbled to historic lows.

Recovery took years, but because the IRS wasn’t a locus of partisan warfare during the presidency of George W. Bush, it did happen. By 2010, under the administration of Barack Obama, the IRS’ budget hit its high point: $14 billion in today’s dollars, about $2.5 billion above where it is today. Collections rebounded.

But that spring, over unified Republican opposition, Democrats passed the Affordable Care Act. The sprawling health care bill was also, indirectly, a sprawling tax bill, since it relied on the IRS to help administer many of its provisions.

Now Is a Good Time to Cheat on Your Taxes

Budget cuts have crippled the IRS, allowing tax cheats to run rampant. Listen to Jesse Eisinger on the “What Next” podcast from Slate.

In the midterm elections that followed, Republicans took the House of Representatives in a wave similar to that of 1994. The first bill introduced by House Republicans in 2011 was a budget that slashed funding across the government and took special aim at the IRS. In addition to calling for a cut to its budget of $600 million, the bill prohibited the IRS from using any of its funding to carry out key parts of the Affordable Care Act. It didn’t pass.

Since then, Republicans have cited the ACA as a reason to withhold funding from the IRS. In 2013, in response to an IRS request for a budget increase, former Rep. Ander Crenshaw, a Florida Republican who then sat on the House Appropriations Committee, said: “Any kind of increase of this magnitude was going to be a challenge for some very basic reasons. There are a lot of objections to the Affordable Health Care Act, a lot of objections to Obamacare.”

The agency faces a structural political problem. On one side are anti-tax Republicans, while on the other are Democrats who fear publicly supporting the taxman. “This is an agency that doesn’t have any friends,” said James Dyer, a Republican who worked for years on the House Appropriations Committee staff. “There’s no advocacy on the Hill for them except what they do for themselves.”

In 2013, the IRS’ bulwarks collapsed. First, as part of a budget deal with Obama’s administration, Republicans got what they had previously sought: a $600 million cut, which came on top of cuts in the previous two years. Then things got even worse. In May, an IRS inspector general reported that the agency had targeted right-leaning nonprofits for scrutiny, igniting what came to be known as the Lois Lerner scandal, named for the manager who had overseen the effort. Shortly thereafter, another report criticized the IRS for loose spending on its conferences. Republicans seized on both scandals, calling hearings and launching investigations.

To head an agency that was now devastated by budget cuts and scandal, Obama appointed John Koskinen. He was a turnaround specialist, a Mr. Fix-It who, at 74, emerged from retirement for one last job. Most recently, he'd led Freddie Mac after the mortgage giant was taken over by the government during the 2008 financial crisis. Fifteen years before, the Clinton White House tapped him to oversee preparations to avert the Y2K crisis. He was a Washington version of Winston Wolfe from "Pulp Fiction," if Wolfe were unfailingly polite and liked working with large bureaucracies.

Former IRS Commissioner John Koskinen (J. Scott Applewhite/AP Photo)

A pragmatist, Koskinen is someone who, by his own description, almost never gets angry. To deal with the crisis, he embarked on a morale-boosting cross-country tour, starting in Cincinnati, the center of the nonprofit scandal. He toured two cities a week for three and a half months. Ultimately, he spoke with more than 22,000 IRS employees. They didn't gripe, he told us; they were focused on getting the resources to do their job. "This was as good a workforce as I have ever worked with."

Cutting the IRS budget didn't make sense to him. It was one of the few areas of government that had a positive return on investment. Koskinen told the Senate, "I don't know any organization in my 20 years of experience in the private sector that has said, 'I think I'll take my revenue operation and starve it for funds.'"

When that argument failed, Koskinen tried to ease the vitriol through a personal connection. In 2014, he contacted Hal Rogers, who was then the Republican chairman of the House Appropriations Committee. Koskinen had grown up in Ashland, Kentucky, not far from Rogers' district. He requested a meeting, couldn't get in and kept at it. After a few calls, he threatened Rogers' staff that he would come and sit in their offices until Rogers met with him. They capitulated. When Koskinen and Rogers finally sat down together, sure enough, they knew folks in common. One of Koskinen's good friends had gone to college with Rogers. The two had a friendly meeting.

The next time Koskinen went to the Hill to testify, Rogers welcomed him warmly: "It is always good to see someone with strong Kentucky roots in the hearing room, particularly during basketball season." He added, "I think much of you personally, Mr. Commissioner." Then Rogers launched into a litany of criticisms: The IRS was trying to implement the Affordable Care Act against Congress' wishes; it was spending too much, wasting too much, resisting reforms and letting the poor commit too much fraud. By that time, the Republican narrative had taken hold: The IRS had to be "held accountable" for wasting millions on lavish conferences and persecuting conservative nonprofits for their political beliefs.

These charges ignored inconvenient facts. The IRS conference spending had already plummeted, from $38 million in 2010 to $5 million in 2012 — *before* the Republicans first criticized the agency for overspending. And inspector general reports later pointed out that the IRS division that oversaw tax-exempt organizations had also targeted progressive groups and concluded that the IRS had taken prompt action to address the previously identified problems in the nonprofit unit.

Nevertheless, the scandals provided the rationale for ongoing budget cuts. The IRS lacked the "moral authority" to appeal for a budget increase, said Republican Rep. Paul Ryan, then the chair of the House Budget Committee, in 2013.

The cuts also forced discipline, Republicans argued. "We deliberately lowered the IRS funding to a level that would make the IRS think twice about what you are doing and why you are doing it," Crenshaw told Koskinen in a hearing, "because you don't have a single dime to spare on anything frivolous or foolhardy or even mediocre."

Neither Crenshaw nor any other current or former Republican member of Congress agreed to speak with ProPublica about the IRS. Some staffers talked on the condition of anonymity because they were not authorized to speak to the press on the record and acknowledged that the budget cuts were a mistake. Asked about the cuts, a Hill Republican staffer said, "It was punishment," adding that the IRS clearly "needs more money and needs more people."

The lowest point for Koskinen — and for the IRS — came when, a few weeks before Christmas in 2014, after four years of consistent cuts, Congress slashed an additional $350 million from the agency's budget. Because the cut came three months into the fiscal year, and only a few months before filing season began, it sent the agency scrambling. Desperate, Koskinen even considered briefly shutting down the IRS. Koskinen's deputy said that this was the only time he saw his boss angry. "That night, I had trouble getting to sleep," Koskinen said. "Normally I go to sleep in about 22 seconds. It drives my wife crazy."

The sudden cut meant that the IRS couldn't hire enough seasonal employees to answer taxpayer questions. As a result, almost two-thirds of the tens of millions of taxpayer calls would go unanswered that year.

Koskinen was outspoken about the cause of the poor service. He liked to counter the constant urging to do "more with less" with a dose of realism. In fact, he said, the IRS would do "less with less": answer fewer calls and do fewer audits.

That upset Republicans, who charged in a contentious 2015 hearing that IRS mismanagement, not the budget cuts, was causing the decline in service. Mike Kelly, a Republican representative from Pennsylvania, attacked Koskinen, the ever-optimistic turnaround specialist, for being too negative. "I would encourage you to be a little more upbeat," Kelly told Koskinen. "It is spring! Let's talk about the good side of it." The congressman also didn't like Koskinen's frequent quip that the budget cuts were really a "tax cut for tax cheats."

"I don't think that I would want to be a cheerleader, telling those people that don't want to pay their taxes: 'Hey, you know what? We are not going to be able to come after you,'" said Kelly, adding that "those comments are better kept internally."

Koskinen replied with a speech he'd given many times before and would give again. A collapse in tax compliance was really possible, he said. People will catch on. He worried about the U.S. becoming Italy or Greece. "What I don't want to do is have somebody later on say, 'You never warned us,'" he told Congress. "This is your warning."

It's a decision that everyone who works at the IRS has to make: How will you respond when someone asks, "So what do you do?" Answer forthrightly, and you're bound to be met with either iciness or open hostility. Over her 30-year career, Pam Reicks, the former IRS manager, adopted a solution that's common for IRS lifers. "I work for the government," she'd say.

Not that she was the least bit embarrassed by what she did. She was proud to play a role in making sure that the tax system was fair and that the rich paid their share. The walls of her home office are covered with family pictures, awards from the IRS and an American flag. Get her started on the topic of auditing, and her large eyes will grow wide as she excitedly tells you why it's such tricky, interesting detective work.


Pam Reicks, who had a 30-year career at the IRS, in her home office. “You can see all this abuse and fraud, and people not paying their taxes, but can’t use your hands to get it,” she said. (Kathryn Gamble for ProPublica)

When Reicks joined the IRS in 1987, she saw it as an exciting way to expand her world. Born and raised in Red Cloud, Nebraska (population 1,000), she was curious and eager to learn. She began her career in Waterloo, Iowa, first auditing individuals and then working her way up to businesses. She preferred auditing businesses, because poring over the books of companies taught her how they really worked.

Reicks moved to Des Moines and climbed her way to management. She tried to inspire agents with her enthusiasm. “I’m, *Go, IRS!,* you know?” she said with a laugh. “*Go team!*”

By 2011, she had shifted to a new job, one that offered plenty to satisfy her curiosity. At the time, the IRS was cracking down on Americans hiding money in tax havens. The Justice Department, with the help of whistleblowers, had pierced the veil of secrecy that shielded Switzerland’s bank accounts. Banks sent lists showing thousands of account holders — many of them probable tax cheats — to U.S. authorities. But the scope of the problem was too big. The IRS simply couldn’t audit everybody who had an offshore account.


In Reicks' home office, an award for her career at the IRS, family pictures and her kindergarten diploma. (Kathryn Gamble for ProPublica)

One solution was to allow people to turn themselves in. The IRS launched programs that offered reduced penalties to those who came forward voluntarily, before an audit was opened. Tens of thousands did. But, of course, an unknown number of tax dodgers did not. Reicks' new job, as a senior manager in the offshore program, was to help the IRS figure out how many of those people it could audit.

Auditing taxpayers with accounts in tax havens is hard. Revenue agents have to investigate the scope of any cheating and figure out whether it was intentional. Tracking down the necessary documents from foreign countries can add frustrating delays. The average time to complete an offshore audit, Reicks remembered, was close to three years.

Part of her task was to make sure that managers and revenue agents, who feel pressure to show productivity, did not cut these audits short. Some of the cases involved huge amounts of money. But IRS employees aren't supposed to think about that. Since the IRS-reform bill in 1998, the agency is prohibited from evaluating agents based on how much money they bring in. Instead, they are evaluated on how efficiently they open and close audits. "You have to account for your time," Reicks said, "and if you're not churning out the exams, you have to explain why you're not."

The budget cuts meant agents had to trudge through these jungles without a map. Not only were there fewer agents every year to do these audits, but many of the ones who remained were less experienced. Training and travel budgets had been slashed along with everything else. The agents conducting these audits were scattered across the country, as was Reicks' team of 11 experts, who were supposed to guide them. In-person training became a rare luxury. Instead, most instruction was done online: PowerPoint slides appeared on a screen while someone talked. "But this stuff is so complicated that without somebody sitting in front of you, you don't know if they're getting what you're saying," Reicks said.

The entire IRS has seen a similar shift. As a result, training has become less effective, IRS employees told ProPublica, and the thoroughness of audits has diminished. It's also made the IRS a worse place to work.

"The last time I was aware of hiring," said Marie Allen, who retired in 2016 after a 32-year career at the IRS that included time auditing wealthy taxpayers, "I saw the young, angel, baby-faced agents coming in. They were told to sit down in a cubicle, given a computer and told, 'This is your training.'" A couple of trainees decided to quit rather than suffer through weeks more of this, she said. "So we lost young talent by basically boring them to death."

Even established employees can feel themselves falling behind, making it harder to match up against sophisticated opponents. "We're staying stagnant in what we know," said an IRS employee who works on audits of corporations. Add to that the pressure to close audits as quickly as possible, and auditors often feel like they are rushing past signs of suspicious activity. "All I have time for is low-hanging fruit, basically," the employee said. "It's not only not fair to American taxpayers, it's not very satisfying for me, either."

As time went on, Reicks said, the IRS was able to undertake fewer and fewer audits of offshore accounts. Given a list of American accounts in a tax haven, the IRS would often be able to audit only 10 to 15 percent of them, she remembered. That meant the agency was not able to adequately pursue tens of thousands of people who had kept their bank accounts secret from the U.S. government.

In 2015, shortly after congressional Republicans forced the sudden $350 million cut that so upset Koskinen, Reicks began a new stage of her career. To prepare its managers for possible elevation to the executive level, the IRS puts them in temporary assignments. Over the course of a couple years, Reicks would get a different job every three to six months. But while the type of work changed at each assignment, the basic problem she faced did not: There weren't enough people to do the work.

Her final assignment put her in charge of exam activities at two of the IRS' "campuses" in the Northeast. At the campuses, in row upon row of cubicles, thousands of tax examiners and customer service reps review correspondence and answer phone calls from taxpayers.

Employees, Reicks said, constantly asked whether the IRS was going to hire more workers. With no good news to report, the best Reicks could do was assure them that they were responsible only for the work assigned to them, not for the work the

IRS should be doing. “I get that the four desks around you are all empty,” she remembered saying. “This is what we have. We will adjust the workload accordingly.”

Lacking staff, the IRS has shrunk programs — even those that brought in billions. One such casualty: pursuing taxpayers who do not bother to file tax returns. Tracking those people and businesses down, determining what they owe and then reviewing what they submit in response is time-consuming. “Why generate new work when we don’t have the resources to do the work we have right now?” asked Shantelle Kitchen-Nelson, who managed a collections campus in Philadelphia in 2017 and recently retired.

The Amount of Tax Debt Expiring Because of Age Has Risen Dramatically
Note: Counts the annual sum of debts each year that exceed the statutory limit for IRS collection (adjusted for inflation).
Source: *IRS collection reports*

As the IRS has fallen further and further behind on collecting the debts of those who filed a return but didn’t pay their taxes, many of those obligations have been allowed to surpass the 10-year statute of limitations. “For our customers,” said Jay Freeborne, a tax professional in Seattle who advises clients with tax debts, “those are touchdowns. When debts expire, we high-five them.”

“This is a great time for not being compliant with paying taxes,” said Richard Schickel, a former IRS collection agent who now counsels taxpayers. “I have 11 clients who owe more than $1 million who are not being worked at all.”

As Reicks toured different parts of the IRS, she was impressed by her colleagues. But she was working 80-hour weeks, often advising on offshore issues in addition to her current assignment, and living for chunks of time in hotels. On top of all that, her mother and brother had died in the same month.

She decided not to put herself up for promotion and moved back to Nebraska, to live in Omaha, near her sister. She returned to her old job of supervising offshore audits full time. But by then, in 2017, things had grown noticeably worse.

Reicks looked forward to the end of the year, when she’d reach 30 years of service and be eligible to retire with full retirement benefits. She’d always thought she’d stay longer than that. But she realized that she couldn’t.

“I got tired,” she said.


After retiring from chasing offshore tax cheats, Reicks has had more time for one of her favorite hobbies, golf. (Kathryn Gamble)

It’s unclear when — or whether — Congress might begin to reinvest in the IRS. The best that can be said is that it’s been a few years since the last deep cut.

In 2015, when the IRS ability to answer taxpayer phone calls hit a low point, the budget discussions on Capitol Hill took a turn. Republicans agreed to boost the agency’s funding — but only part of it. The “taxpayer services” portion, which goes toward hiring seasonal employees to answer the phones, got bumped up. The “enforcement” portion of the budget continued to be pared: Today, adjusting for inflation, it’s $1.5 billion lower than it was in 2010, a decrease of 23 percent.

This year, Republicans again selectively increased IRS funding. The massive new tax cut law has dumped loads of extra work on the IRS, which now has to write rules interpreting the legislation, reprogram aged computer systems and retrain its employees. Republicans understand that if the IRS fails to roll out their tax overhaul well, they might feel the political consequences. To help the agency cope, Congress handed it an extra $320 million, with the instruction that the money be used solely to implement the new law.

The budget for 2019 is likely to be more of the same. When asked whether lawmakers might eventually provide increased funds to hire auditors and collectors, Republican Hill staffers told ProPublica that the members of Congress they work for will follow the lead of the new IRS commissioner, Charles Rettig. If Rettig, who was confirmed in September, asks for more money for the 2020 budget, Congress might support it, they said.

Congress has Targeted the IRS' Enforcement Budget for Cuts

Percent Change Since 2010 Budget

201020180%IRS Customer Service Budget-4%0%IRS Enforcement Budget-23%

Note: 2018 Dollars.

Source: *ProPublica analysis of data from the IRS and Congress.gov*

Rettig, a tax lawyer with decades of experience defending wealthy clients against the IRS, has been publicly noncommittal so far. Pressed by Democratic senators at his confirmation hearing, all he would say was that "one of [his] top priorities would be to analyze the budget." This was a stark contrast to Koskinen's outspoken advocacy.

In the meantime, the IRS continues to shrink. Annual revenue from audits is down by about $10 billion, adjusted for inflation, since 2010, and billions more have been lost by not pursuing nonfilers and other sources of unpaid tax debts. If the IRS had maintained a level of enforcement similar to that of the years from 2004 to 2010, it would have collected about $18 billion more than it did last year, ProPublica estimates. The total shortfall since 2011 has been about $95 billion.

The IRS Is Collecting Far Less Revenue From Audits

Average Revenue

$23B$14B2008-20102015-2017
Note: Includes enforcement revenue from both examinations and appeals. 2017 dollars.
Source: *IRS*

The true cost is likely much larger, since IRS enforcement has a magnifying effect. People who undergo audits are less likely to evade taxes in the future, just as nonfilers who are caught are more likely to file voluntarily, studies have shown. Take away enforcement, and evaders are emboldened and grow in number.

One factor that has helped obscure this deterioration is the growth of the U.S. economy, which has pushed up tax receipts since the Great Recession. The IRS took in $3 trillion in 2017, up from $2 trillion in 2011. Republicans have pointed to this as proof that nothing is amiss: "You could argue," Crenshaw said to Koskinen in a 2016 hearing, "if you collect more revenue with less money, then maybe if you had even less money you would collect even more revenue."

Federal Tax Receipts as a Percentage of GDP Have Dipped
Source: *IRS and Bureau of Economic Analysis, ProPublica analysis*

But the increase in receipts is misleading. During that period, for example, the top marginal tax rate went up, so the richest taxpayers were paying more. More important, in 2011, Americans had deep losses from the 2008 financial crisis that were still depressing tax obligations. In the following years, receipts outpaced economic growth, a typical phenomenon during recoveries. Still, that increase was weaker than government analysts expected. Even before last year’s tax cuts, tax receipts as a percentage of GDP never reached the levels of the late 1990s or mid-2000s.

It will be years before we know whether tax cheating has in fact increased. The last IRS report to assess what it calls the “tax gap,” issued in 2016, analyzed the period from 2008 to 2010. It found that taxpayers had paid about 82 percent of the taxes they truly owed. If the rate of compliance in 2017 was the same, that would translate to $667 billion in missing taxes.

Even the tiniest drop in compliance would cost billions more. But no one we spoke with who has worked at the IRS thinks the drop is likely to have been small. “One day it will be clear,” Koskinen said, “but by that time, you’re in deep yogurt.”