IRS Needs 1,200 More Employees to Implement New Energy Incentives

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By Lauren Loricchio

The IRS is estimating that the cost of implementing the Inflation Reduction Act's climate and clean energy tax incentives will be nearly eight times more than what has been allocated to the agency for that purpose.

The law (IRA, P.L. 117-169) dedicated $500 million to the IRS for implementing those provisions, but the agency estimates in its recently released strategic operating plan that $3.9 billion in funding will be needed "for energy security to support the implementation of the energy tax incentives outlined in the IRA."

In a separate budget document for fiscal 2024, the IRS said it is requesting about $105 million to add 1,221 full-time taxpayer service positions for "climate and clean energy tax credit implementation."

According to the document, "to fully support the various IRA tax credit provisions, the IRS requires funds above-and-beyond the $500 million provided in IRA to develop or modify forms, instructions, and notifications; conduct taxpayer education and outreach; address increased telephone, correspondence, and face-to-face demands; create processes to allow and track direct payments; and ensure compliance."

The IRS said it envisions that "significant education and training costs will be required to support" the implementation. Providing service to taxpayers will also "require new technological platforms, along with the standard service channels, as the IRS anticipates a full ramp-up of servicing these legal requirements" by fiscal 2024, it added.

The IRS said the strategic plan's estimate was developed with the Department of Energy "based on their past experiences in supporting the Treasury Department and the IRS in the implementation of energy tax credits and will be refined as part of future planning processes."

Chris Edwards of the Cato Institute said he expects that the $3.9 billion estimate is "a lowball" figure and that "the cost to administer the incentives over time will be huge."

Supporters of the provisions say they will help combat climate change, but research suggests that they could be more costly than previously thought.

Researchers at the Brookings Institution warned that while the Congressional Budget Office and the Joint Committee on Taxation estimated that the climate provisions will cost $392 billion over 10 years, revenue losses could be significantly larger.

Skyrocketing Costs

One reason for the high costs, according to Edwards, is all the complex rules tied to the energy provisions, such as those dealing with prevailing wages, the environment, business size, geographic location, made-in-America inputs, and types of project ownership.

Edwards said another reason is the skyrocketing value of the incentives themselves.

“With tax incentives that offer hundreds of billions of dollars to taxpayers, there will be huge incentives for cheating by individuals and businesses,” Edwards said, adding that the earned income tax credit and low-income housing tax credit have been the target of such actions in the past.

The new energy credits will similarly “require large IRS resources to investigate and audit,” according to Edwards.

Andrew Lautz of the National Taxpayers Union agreed that the clean energy tax credits will likely be more expensive to administer than anticipated.

Lautz wondered where and when the communications breakdown between the government agencies and congressional Democrats occurred, because there is a huge delta between $500 million and $3.9 billion.

“When was this $3.9 billion estimate developed, and if it was before the enactment of IRA, why wasn’t it either communicated to Congress or, if communicated to Congress, acted upon by lawmakers?” Lautz asked.

John Buhl of the Urban-Brookings Tax Policy Center told *Tax Notes* that “while there are benefits to using the tax code to fund policy priorities, it does create administration and compliance challenges that can be hard to estimate or can grow over time.”

“Giving the IRS the resources it needs to implement complex policies is crucial, but this specific request could get tied up in the same political friction over the agency’s annual appropriations and the larger pool of funding from the Inflation Reduction Act,” Buhl said.

Senate Finance Committee ranking member Mike Crapo, R-Idaho, declined to comment, but his spokesperson said in an email that “we expect the issue (among others) to be addressed at the IRS filing season hearing” with Commissioner Daniel Werfel April 19.