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Do republicans let you get away with cheating on your taxes?: a look at the irs budget

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15th March, 2011

Abstract

This paper attempts to answer the question of whether political ideology matters for the level of resources that are allotted to tax administration and enforcement. Looking at variation in the size of the IRS budget and number of Full-time employees (FTEs) during a 43-year period between 1966 and 2008, I find little evidence suggesting that the party affiliation of the President makes a difference to the overall level of IRS funding. There is some evidence which suggests that when the control of the Senate switches from Republican to Democratic hands, the size of the IRS budget goes up by up by about 7%. The lack of results at the aggregate level is likely driven by the fact that it is relatively infrequent that the same party controls the Presidency, the Senate and the House. In fact, I find evidence suggesting that when all of these are controlled by Republicans, the level of resources available to the IRS are lower by between 13 – 21% relative to the situation when there is a divided government or when Democrats are in charge.

I wish to thank Jeff Hoopes and Joel Slemrod for their helpful comments. All remaining errors are my own.

(i) State the problem: Do party ideologies matter for tax administration and enforcement? In particular, do Democratic administrations spend more resources on tax administration and enforcement than Republican administrations in the United States?

(ii) Explain how the problem relates to other, solved, problems and how it is different:

In the United States, the Republican and Democratic parties have acquired different reputations on handling the various issues that matter to the voting public. A study on issue ownership and Presidential campaigning over 13 presidential elections between 1952-2000 suggests that Republicans have an electoral advantage when issues related to taxes, spending, and the size of government are high on the public agenda. (Petrocik, Benoit, & Hansen, 2003 – 04). Yet whether the perceived advantage of Republicans on the issue of taxes translates to real differences in terms of policy has not been well explored.

On the question of tax cuts itself, the evidence is somewhat mixed, though a casual look at the major tax initiatives would favor the conventional narrative that Republicans tend to cut taxes more frequently than Democrats. The most significant tax cuts to the top marginal personal income tax rate in the last three decades were enacted by Ronald Reagan with The Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986, the net effect of which was to bring down the top rate from 70% to 28%. In more recent times, the administration of President George W. Bush also enacted a reduction in the top marginal personal income tax rate from 39.6% to 35.0% through passage of the Economic Growth and Tax Relief Reconciliation Act of 2001 and Jobs and Growth Tax Relief Reconciliation Act of 2003. However, President George H.W. Bush, also a Republican, raised taxes through the Omnibus Budget Reconciliation Act of 1990. Thus, while the conventional narrative that Republicans are likely to cut taxes seems true, it hasn't always held up (Tax Foundation, 2009).

Besides tax rates themselves, another potential instrument through which elected leaders can impact the actual level and equity of tax collection is through varying the budget of the administrative agency in charge of tax collection and enforcement as well as altering how the resources are allocated across various functions. In the U.S. context, the body entrusted with these roles and responsibilities is the Internal Revenue Service (henceforth, IRS). If, as is commonly believed, Republican presidents are less keen in cracking down on evasion and avoidance, then one potential instrument by which they may choose to effect such a policy is by

changing the resources that they devote to tax administration and enforcement. This intuition isn't without basis as the two following stories from the popular press indicate. Time Magazine in a story pointed that the IRS Commissioner Fred Goldberg's request to spend an additional $76 million to catch "rich tax cheats" was pared down by the then President George H.W. Bush to a "puny $6 million." The article goes on to also mention that in 1988 George Bush ridiculed Michael Dukakis' plan to catch more tax avoiders and railed against "putting an IRS agent in every kitchen." (Time Magazine, April 1, 1991).

This is not an isolated example of the President attempting to influence the course of direction at the agency. In 1997 during the presidency of former President Bill Clinton, the IRS came under scrutiny once again when a series of conservative nonprofit organizations like the Heritage Foundation and Citizens Against Government Waste were the targets of audits, prompting a bipartisan effort in the Senate to investigate the accusation that a political motivation was behind such audits. Not surprisingly, Margaret Milner Richardson, the then IRS Commissioner, denied any wrongdoing (Time Magazine, March 24, 1997).[1] Therefore, looking at these news stories suggest that the President may try to vary the level of resources provided to the various agencies under his control as well as alter the nature of the budgetary allocation in order to have the agency serve his political goals that may be different from those of a benevolent social planner.

In this paper, I therefore attempt to formally test whether the political affiliation of the incumbent in the White House affects the size of the IRS budget and how it is allocated among various activities. This identification strategy has proven useful in the economics of crime literature. For example, Levitt documents substantial and significant changes in the size of the police force during the mayoral and gubernatorial election years that is associated with a contemporaneous reduction in crime prior to elections (Levitt, 1997). This is consistent with a large literature that looks at the political budget cycle (Rogoff, 1990) and a smaller literature that documents the effects of politics on decision-making in the economic realm. For example, Poterba finds that in the late 1980s, in the face of substantial state budget deficits, state fiscal institutions appear to have real effects on the speed and nature of fiscal adjustment to unexpected deficits. In addition to these state institutions, political factors were also important in the adjustment process and tax increases and spending cuts were both significantly smaller in gubernatorial election years than at other times (Poterba, 1994).

1 These two examples were first mentioned in a paper by Valentin Estevez Rios "Liberals, Conservatives and Your Tax Return."

(iii) Defend why the problem is important enough to warrant attention: An obvious question which may come up at this stage is that if a Presidential administration wants to achieve policy goals that puts its preferred set of weights on equity, efficiency and simplicity, then why not simply alter the tax code? Put more directly, if a Republican President wants to enact a lower level of taxes to support a smaller government, say, whereas a Democratic President wants to impose higher taxes, in particular, on the rich, to achieve a desired level of progressivity, then why not simply cut or raise tax rates accordingly? As Kopczuk points out correctly, addressing the efficiency of the tax system typically requires politically costly tax reform, and "tax avoidance – letting well enough alone – may be a simple and practical way of addressing shortcomings of an inefficient tax structure." He raises the issue of tax rates on capital income and points out that much of the optimal taxation literature suggests that capital incomes should not be taxed, or should only be taxed lightly. "In that case, the best policy response would be cutting tax rates imposed on capital income. If it is not politically feasible to pursue such policies explicitly, a similar outcome can be accomplished by ***reducing enforcement or increasing avoidance opportunities in this area***." (emphasis added) While he concedes that this may not be the first-best outcome to strive for, a roundabout way of exempting capital income from taxation through light enforcement may be better than preserving distortions present in the existing tax structure (Kopczuk, 2006). The possibility of institutional checks and balances interfering with the desires of the President to reform the tax code is also not a mere hypothetical possibility; it has been argued in fact that in the 1980s and 90s, Congressional gridlock inhibited major new spending increases or tax cuts (Frankel, 2003)[2].

Having established that tax administration can be a tool for politicians to influence tax collection, I present some evidence suggesting that tax administration matters for compliance and issues related to vertical equity. In a study, Jeffrey Dubin and co-authors find that the reduction in the audit rate between 1977 – 1986 reduced the tax collected by approximately $15 billion in 1986. (Dubin, Graetz, and, Wilde, 1990). Looking at more recent numbers, the gross tax gap in 2001 – the amount of Federal taxes not paid voluntarily and on time was estimated to be between $312 billion and $353 billion, or between 15.0 and 16.6% of total tax liability (Kopczuk, 2006, sourced from IRS 2005b). While these recent estimates suggest that the tax gap has grown relative to earlier years, the IRS's ability to audit and enforce the tax code appears to

2 The Tax Reform Act of 1986, which was massive in scope and reach, must be viewed as an exception to this general observation.

have diminished. For instance, in 2006, the last year for which a detailed breakdown of IRS employees by type of activity is available, the IRS had roughly 13,000 revenue and tax agents devoted to examination. This number is down from 16,000 revenue and tax agents employed in 1995. On similar lines, the Criminal Investigation (CI) Division of the IRS shrunk in size. By 2006, the number of criminal investigators had fallen to just under 2,800 from a high of 3,400 in 1995 (TRAC database). The tax gap we noted above may have resulted, in part, from a reduction in the overall IRS budget and the FTE head count. The goal of this paper is to examine whether there is a systematic relationship between the party affiliation of the President and changes in resources available to the IRS. Related to the question of vertical equity, Scholz and Wood, note in one of their papers that the odds of corporate versus individual audits increase with increased Democratic control over Congress and change with different presidential administrations (Scholz and Wood, 1998).

(iv) Sketch out how a solution might be obtained: I will estimate a regression of the form using OLS:

$$\text{IRS budget in year } t = \beta_0 + \beta_1 * \text{Party affiliation of the President}_t + \beta_2 * t + \gamma X + \varepsilon_t \quad (1)$$

A word about the dependent variable, the IRS budget: While this has in fact grown in nominal terms over time, it may have held constant in relative terms or may have declined as well. Thus one approach to control for inflation would be to look at the size of the IRS budget in real terms. I take a different approach instead and normalize the IRS budget by the size of the overall federal budget[3]. To the extent that Republicans and Democrats have different spending priorities, normalizing the size of the IRS budget by the size of the overall federal budget should help us get at the causal impact of the party affiliation of the President on the resources spent on tax administration and enforcement.

X represents the control variables. Included in X is a dummy variable for whether the Republicans or Democrats are in charge of the Senate and another for which of the two parties is in charge of the House. Since chairmen of the relevant committees in the Senate and the House may exercise a disproportional influence on the budgeting process, I also experiment with an alternative specification in which I look at the political leanings of the Chairmen of these committees to understand the influence that they have on IRS budget. Specifically, I use the scores assigned to the chairmen of the Senate Finance Committee and the House Ways and

3 An alternative approach, which was not attempted in the paper, would have been to normalize the IRS budget by the overall size of the national economy, as measured by GDP.

Means Committee by the Americans for Democratic Action, a liberal advocacy group (henceforth ADA scores). Such scores have been used in the past to examine issues related to congressional oversight over administrative agencies (Weingast and Moran, 1983). Higher ADA scores indicate more liberal preferences.

I also include a time trend to account for the fact that over the last few years, the U.S. Congress has restricted spending on tax administration, forcing the IRS to curtail enforcement activities, at the same time, that the number of individual filers has increased, tax rules have become more complex, and more business have become multinational operations (Aaron and Slemrod, 2004). Hence including a time trend should help us control for such secular declines in IRS resources.

A comment regarding the use of the OLS instead of an Instrumental Variables approach would be that I can largely abstract away from concerns regarding the endogeneity of the right hand side variable. It is a reasonable assumption that the decision of American voters as to who to vote in as their President is unaffected by the level of budgetary resources spent on the IRS. While taxes have been an important issue in U.S. politics, the rhetoric from both sides has overwhelmingly focused on the absolute rates itself and not on the level of resources devoted to tax administration and enforcement per se (Sides, 2006).

An alternative way of looking at the questions of interest is to estimate a regression of the form:

$$\#\text{ of FTEs in year } t = \beta_0 + \beta_1 * \text{Party affiliation of the President}_t + \beta_2 * t + \gamma X + \varepsilon_t \qquad (2)$$

where FTEs is the annualized number of Full-time employees employed by the IRS in any given year. The controls included are the same as those in equation (1).

(v) State what are likely to be the important theoretical and empirical problems to be overcome:

I mention three possible issues, the first theoretical and the next two, empirical, which may plague the estimation:

1) Maybe there is no true effect after all: Given the checks and balances in place, one may suspect that there are no effects between political ideology of the President and the level of IRS resources. Alternatively, it may be the case that given bureaucratic inertia, the level of IRS resources is simply unresponsive to the political identities of the leaders in charge of the Presidency (or Congress).

2) Well maybe there is an effect but it cannot be identified based on the existing data: Since I am simply using temporal variation, and have data for only approximately 40 years (with data on the break-up of IRS employees by function available only for 27 years), there is the possibility that even though there is an effect of political ideology on IRS resources, I might not be able to identify the same using only cross-sectional variation in the data.

3) Omitted variable bias: There is the possibility that the results I obtain cannot be taken at face value since I have failed to control for omitted variables. For example, while I have included a time trend in all of the regressions that can help in getting at improvements in information technology that reduces the need for audits (or say, improvements in third-party information reporting which also meets that same purpose), the time trend cannot capture all of the variation that is likely to drive the demand for IRS resources. For example, increasing complexity of the tax code or increasing globalization may drive the demand for IRS resources higher and I fail to account for these factors in the regressions above. All these factors may result in me not obtaining results in line with the intuition expressed above.

(vi) Data: The necessary data on IRS' operating costs and FTE is available from the IRS website for the fiscal years 1966 through 2008. The party affiliation of the President can be obtained from the web page of the White House. The identity of the party in charge of the Senate and the House, along with the names of the Chairman of the Senate Finance Committee and the House Ways and Means Committee can be obtained from the websites of the respective committees. The ADA scores of the Chairmen of these committees can be obtained from the ADA web page. Further details regarding the data construction are provided in the Appendix. I present a view of the variation in the independent variable over time in the figure below and provide the summary statistics in Table 1.

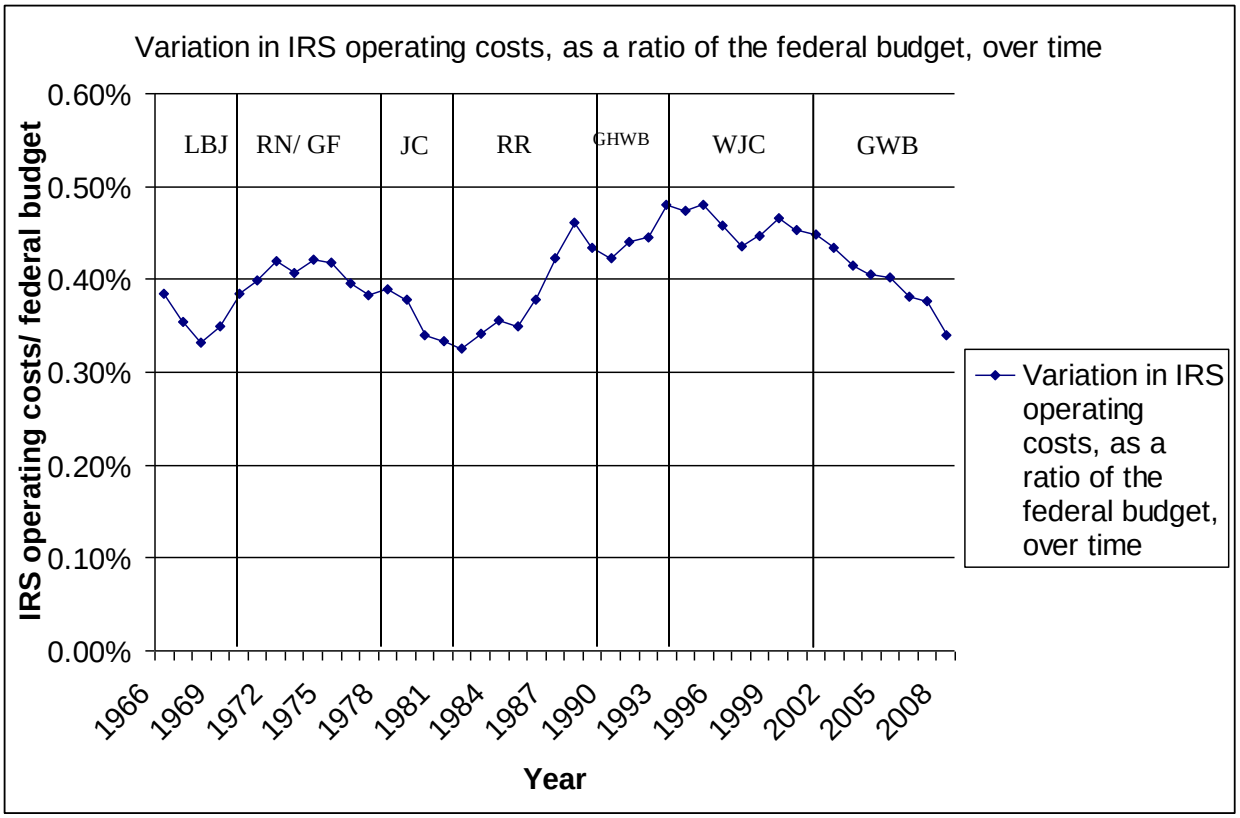

Table 1: Summary statistics for the period 1966 – 2008					
	Units	Mean	Standard Deviation	Minimum	Maximum
IRS Operating costs	In Millions of dollars	4,915	3,430	625	11,307
Federal budget	In Billions of dollars	1,193	837	162	3,326
IRS Operating costs/ Federal budget	As a percentage	0.40%	0.045%	0.33%	0.48%
Total # of FTEs		91,525	15,328	63,508	116,673
Population	In thousands	247,026	33,493	196,560	305,727
Total # of FTEs/ thousand individuals		0.37	0.04	0.30	0.47
Party President	0 = Republican; 1 = Democratic	0.396	0.495	0	1
Party in charge of Senate	0 = Republican; 1 = Democratic	0.628	0.489	0	1
Party in charge of House	0 = Republican; 1 = Democratic	0.721	0.454	0	1
ADA Score Senate Finance Committee Chairman		29.50	27.40	0	100
ADA Score House Ways and Means Committee Chairman		40.28	31.74	0	95

(vii) Results:

The results from estimating equation (1) are presented in columns (1) and (2) of Table 2 while those from estimating equation (2) are presented in columns (3) and (4) of the same table. Since the overall number of FTEs may be less meaningful to look at as compared to the number of FTEs per 1,000 individuals, I also look at that dependent variable in columns (5) and (6) of Table 2.

Table 2: Partisan influence on IRS resources over a 43 – year period between 1966 – 2008

	Operating costs as % of overall federal budget		# of FTEs		# of FTEs per thousand individuals	
	(1)	(2)	(3)	(4)	(5)	(6)
Party President (0 = Republican; 1 = Democratic)	0.0000747	0.0000651	2384.9	1227.9	0.00618	0.00175
	(0.000142)	(0.000116)	(2004.2)	(1971.4)	(0.00839)	(0.00837)
Party in charge of Senate (0 = Republican; 1 = Democratic)	0.000296**		2071.1		0.00692	
	(0.000141)		(2887.6)		(0.0118)	
Party in charge of House (0 = Republican; 1 = Democratic)	-0.000197		18768.9**		0.0816**	
	(0.000290)		(7816.8)		(0.0315)	
ADA Score Senate Finance Committee Chairman		0.00000778***		125.4**		0.000429**
		(0.00000278)		(47.69)		(0.000196)
ADA Score House Ways and Means Committee Chairman		-0.00000408		134.9**		0.000641***
		(0.00000259)		(53.01)		(0.000217)
Year	0.0000152	0.00000835	1414.1***	812.2***	0.00218	-0.000300
	(0.0000120)	(0.00000591)	(366.3)	(129.2)	(0.00148)	(0.000531)
Constant	0.00363***	0.00377***	44640.0***	64037.1***	0.258***	0.339***
	(0.000489)	(0.000190)	(14232.1)	(4067.1)	(0.0575)	(0.0170)
N	43	43	43	43	43	43
R^2	0.24	0.33	0.65	0.68	0.33	0.38
F	3.736	4.549	11.26	12.88	4.572	7.184

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

As the results in the first row of columns (1) through (6) suggest, the party affiliation of the President does not appear to make an impact on the overall size of the IRS budget or the number

of employees hired. Even though the coefficients are themselves always positive in all of the six specifications above, they are not statistically significant in any one of them. There appears to be some evidence that the identity of the party controlling the Senate and the House makes a difference to the size of the IRS budget and number of FTEs. For example, in column (1), when the control of the Senate switches to Democratic hands from Republican hands, the results in column (1) suggests an increase in the size of the IRS budget (expressed as a fraction of the overall federal budget) by 0.0296%. To get a sense of the magnitude of the increase, I note that the average value of IRS budget (again expressed as a fraction of the overall federal budget) is 0.404% and hence an increase of 0.0296% represents a proportional increase of 7.3%.

The results are generally stronger when I look at the ADA scores of the Chairmen of the Senate Finance Committee and the House Ways and Means Committee. In 5 of the 6 different possible cases, the results are statistically significant at the 5% level or higher and in the anticipated direction, i.e. a higher ADA score for either the Senate Finance Committee Chairman or the House Ways and Means Committee Chairman, (denoting a more liberal legislator), the higher the resources allotted to the IRS. Again, to get a sense of the magnitude of the impact that the ADA score of the Senate Finance Committee has on the level of IRS resources, I focus on the coefficient in column (2) and note that the average ADA score for Republican Chairmen of the Senate Finance Committee = 16, whereas the average ADA score for Democrats in such positions = 38. Given this 22 point difference in ADA scores, taking the coefficient in the fourth row of column (2) literally suggests that switching from the "average" Republican Senate Finance Committee Chairman to the "average" Democratic Senate Finance Committee Chairman leads to an increase in the IRS budget (as a fraction of the overall federal budget) by (0.000778% * 22) or, 0.0172% or, 4.3% of the average IRS budget.

During the period from 1966 – 2008, I note that the ADA scores of the House Ways and Means Committee chairmen from the two parties were further apart than for the chairmen of the Senate Finance Committee. The average ADA score for the Democratic chairmen of the House Ways and Means Committee was 53 while that for the Republican chairmen was only 7. Given this 46 point differential in the ADA scores, the coefficient on ADA scores for the Chairman of the House Ways and Means Committee in column (4) suggests that having a Democrat lead the committee would be associated with an increase in the number of FTEs by 134.9 * 46 or approx. 6,300. Given that the average size of the IRS was 91,525 during this entire period, the switch

leads to an increase in the size of the agency of approximately 7%. The results are meaningful and appear plausible.

As mentioned in Section v. above, one may not be able to clearly observe the partisan influences on policy making in the presence of a divided government because of the checks and balances that are inbuilt as a part of the U.S. Constitution. In that context, it may be meaningful to look at what happens when the same party controls the White House, and the two chambers of Congress. In a different context, viz. that of responses to state fiscal crises, Poterba finds that when a single party controls both the state house and the governorship, the reaction to state deficits is much faster than when party control is divided (Poterba, 1994). As it turns out, in the 43 years between 1966 – 2008, we have had a unified Government for only 15 of those years, with Democrats controlling the Presidency, the Senate and the House in 11 of those years and the Republicans controlling the same in only 4 of those 43 years. If the observations made by Poterba also hold up in this case, then it may be that the partisan influence on policy is most acutely felt in the years in which a single party has control over all the three arms of the government. I examine this hypothesis below and present the results in Tables 3. [4]

4 I examine this hypothesis in Table 5 as well, but for a slightly different choice of dependent variable and a reduced time period.

Table 3: Impact of unified Republican government or unified Democratic government on IRS resources over a 43 – year period between 1966 – 2008						
	Operating costs as % of overall federal budget		# of FTEs		# of FTEs per thousand individuals	
	(1)	(2)	(3)	(4)	(5)	(6)
Unified government Republican (1 = Republicans control White House, Senate and House, 0 otherwise)	-0.000541***		-19485.5***		-0.0771***	
	(0.000183)		(4863.9)		(0.0193)	
Unified government Democratic (1 = Democrats control White House, Senate and House, 0 otherwise)		-0.000142		-1860.7		-0.0110
		(0.000188)		(3960.2)		(0.0167)
Year	0.0000202***	0.0000118*	1083.9***	835.2***	0.000726	-0.000319
	(0.00000645)	(0.00000636)	(163.3)	(154.1)	(0.000681)	(0.000629)
Constant	0.00365***	0.00382***	69491.9***	73625.7***	0.362***	0.381***
	(0.000124)	(0.000162)	(2645.0)	(3862.1)	(0.0120)	(0.0163)
N	43	43	43	43	43	43
R^2	0.26	0.18	0.61	0.51	0.20	0.011
F	5.094	5.089	30.51	22.34	23.83	0.241

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The results in column (1) of table 3 suggests that if the Republicans were to control the Presidency and both houses of Congress, the IRS budget, expressed as a fraction of the overall budget, is expected to be lower by approximately 0.054% (or 13% relative to baseline) than when there is a divided government or when Democrats control all these branches. Looking at the number of FTEs or at the number of FTEs per 1000 individuals suggests a similarly large impact of 21.2% and 20.8% respectively. These reductions are all statistically significant and large in a practical sense.

While the approach above of looking at the total resources available to IRS (or the number of FTEs) yields some results, it may not be very meaningful to look at overall numbers, if different administrations have different priorities and shift IRS agents from one function to another to better align with their administration's priorities. In that case, there would not be a perceptible change in the total number of employees but in the tasks they are assigned to and who they are asked to audit. In addition, if administrations hire more IRS employees in order to provide high levels of customer-service and be responsive to the needs of taxpayers, then the total number of

FTEs may not be the appropriate measure to look at in any case. Since my focus is on the extent to which Democratic administrations crack down on tax evasion and avoidance, I would like to look at the break down of the total number of employees into their respective functions and specifically examine whether Democratic administrations step up crack downs on tax evasion and avoidance. One way of looking at that is to look at the number of criminal investigators that the IRS hires since it is the Criminal Investigations division that investigates two broad categories of cases: tax violations and money laundering violations (Dubin, 2004). That information however is not available over the entire time period from 1966 onwards but only from the 1980 fiscal year onwards from the TRAC database. Since the years for which the data on number of criminal investigators is available, 1980 – 2006, constitutes a shorter period than was used in obtaining the previous set of results, I also estimate the regression on the number of FTEs for this smaller time frame. The results are presented below in Table 4.

Table 4: Partisan influence on IRS resources over a 27 – year period between 1980 – 2006

	Total # of FTEs		# of Criminal investigators	
	(1)	(2)	(3)	(4)
Party President (0 = Republican; 1 = Democratic)	1746.3	-1776.4	209.3***	173.8***
	(3239.1)	(3874.8)	(62.89)	(60.68)
Party in charge of Senate (0 = Republican; 1 = Democratic)	2900.3		23.58	
	(4271.9)		(55.02)	
Party in charge of House (0 = Republican; 1 = Democratic)	26985.3***		334.7**	
	(7721.0)		(153.5)	
ADA Score Senate Finance Committee Chairman		186.5*		2.688*
		(104.8)		(1.386)
ADA Score House Ways and Means Committee Chairman		84.08		1.396
		(134.3)		(2.308)
Year	1420.3**	182.5	21.50**	7.263
	(513.1)	(454.5)	(8.729)	(7.291)
Constant	-2747379.7**	-272048.3	-40235.4**	-11785.7
	(1025877.9)	(909414.3)	(17478.2)	(14600.5)
N	27	27	27	27
R^2	0.48	0.42	0.38	0.46
F	6.953	8.408	7.980	11.37

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

The results in columns (1) and (2) of Table 4 are qualitatively similar to what we had earlier in

Table 2 in that the party affiliation of the President does not seem to make a difference to the overall level of IRS resources. However there is some evidence suggesting that the identity of the party controlling Congress makes a difference to the level of resources available to the IRS. What is striking from this table though is the result in the first row of columns (3) and (4) which suggest that a Democratic President is likely to increase the number of criminal investigators employed by the IRS by approximately 200. Given that the number of criminal investigators employed by the IRS ranged between 2,600 and 3,400 during this 27-year period with an average of 2,900, the increase of 250 investigators by Democratic Presidents is a modest, but statistically significant, increase of 7%.

Finally, as in Table 3, I also estimate the impact of an unified Republican and (separately) the impact of an unified Democratic government on the level and composition of IRS resources during this 27-year period in Table 5 below.

Table 5: Impact of unified Republican government or unified Democratic government on IRS resources over a 27 – year period between 1980 – 2006

	Total # of FTEs		# of Criminal investigators	
	(1)	(2)	(3)	(4)
Unified government Republican (1 = Republicans control White House, Senate and House, 0 otherwise)	-14337.8***		-254.4**	
	(4421.8)		(97.60)	
Unified government Democratic (1 = Democrats control White House, Senate and House, 0 otherwise)		-3364.2		174.2
		(8100.2)		(124.6)
Year	265.5	-94.75	10.26*	7.009*
	(324.5)	(304.9)	(5.127)	(4.039)
Constant	-426372.0	290613.5	-17512.9*	-11086.6
	(646977.2)	(608957.9)	(10188.5)	(8043.2)
N	27	27	27	27
R^2	0.12	0.012	0.17	0.14
F	10.04	0.0999	4.358	2.122

Standard errors in parentheses * $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

These results are largely consistent with what I observe in Table 3. The coefficient on the dummy variable, unified_government_Republican which is set to 1 when Republicans control the White House and both branches of Congress is -14,337.8 and is reasonably close to the value

of -19,485.5 that was obtained before by looking at a longer 43-year period. The effect on the number of criminal investigators is more striking and portrays a picture similar to what I observe in Table 4. The conclusion I draw from looking at column (3) is that having an unified Republican government approximately reduces the number of criminal investigators employed by the IRS by about 250, which, given the average number of investigators in this period, translates to a reduction of approximately 9%.

(viii) Write out the concluding paragraph: The results in the paper suggest that there are indeed partisan influences on the amount and nature of resources available to the IRS. The perception that Republican administrations are somewhat loathe to enforce taxes and are less likely to crack down on tax evasion and avoidance appears to be borne out in the data. While I find little evidence suggesting that the party affiliation of the President makes a difference to the overall level of IRS funding, there is evidence that suggests that when the control of the Senate switches from Republican to Democratic hands, the size of the IRS budget goes up by up by about 7%. The lack of results at the aggregate level is likely driven by the fact that it is relatively infrequent that the same party controls the Presidency, the Senate and the House. In fact, I find evidence suggesting that when all of these three are controlled by Republicans, the level of resources available to the IRS are lower by between 13 – 21% relative to a situation when there is a divided government or when Democrats are in charge. The analysis at the aggregate level also masks the fact that there are significant increases in the number of IRS employees devoted to criminal investigation under Democratic administrations. Democratic Presidents increase the number of criminal investigators hired at the IRS by about 7%, while an unified government, headed by Republicans, reduces the number of criminal investigators by about 9%.

I should hasten to add the preliminary nature of the results since a number of other variables that could impact tax collection resources such as the number of individual filings, the number of corporate filings and the complexity of the tax code have not been controlled for. It is possible to explore the preliminary findings obtained in this paper further by looking at variations, not just in input measures, but also by looking at outcome measures such as the frequency and magnitude of penalties levied or the frequency of audits for different classes of income tax-payers. One might also be able to exploit the variation in enforcement at the state level (or at that of the level of the IRS district) to see if there are systematic variations in the audit rates among the states based on state-level socio-economic variables, political leanings and voting patterns in elections.

Appendix: Construction of the data:

Data on the size of the overall budget is obtained from the IRS website at: http://www.irs.gov/taxstats/article/0,,id=207706,00.html (Accessed 26th February, 2010). Data for the years 1980 – 2008 are drawn from the statistics for the year 2008; those for years 1971 – 1979 are drawn from those for the year 2006 and the figures for 1966 – 1970 are drawn from those for the year 1995. This gives me an integrated time series of 43 years over which to study the variations in the size of the IRS budget.

The numbers for the overall federal budget are drawn from the website of the Office of Management and Budget at: http://www.whitehouse.gov/omb/budget/Historicals/ (Accessed 27th February, 2010). There are two series available: one is the figure for the budgeted amounts and the second is the actual outlays. Since Congress has direct control over the level of budget authority, not the level of outlays, I decide to look at the figures that are authorized by the Congress and not the outlays. However the budget authority numbers are only available for 1976 onwards whereas outlays are available from 1962 onwards. Hence what I use is the actual budget numbers for 1976 onwards while for the period 1966 – 1975, I estimate the budget authority numbers. Essentially, I regress budget authority figures on outlay figures for the period 1976 – 2008 for which both are available, and then use the budget authority numbers, predicted from the regression, for the earlier period, i.e. 1966 – 1975. The regression is estimated, by looking at the overall outlay and budget authority across all government agencies. The equation I obtain is:
Budget authority in year t = 8499 + 1.163 * Outlays - 0.000000158 * $(\text{Outlays})^2$ + $4.53*10^{-14}$ * $(\text{Outlays})^3$ where the Outlays are those for the same years as the budget authority numbers.

The fit I obtain is satisfactory and the difference between the predicted budget authority figures and the actual budget authorities for the years for which the latter figure is available, i.e. 1976 – 2008 is only 1.3%. Hence I use this cubic specification to get at the budget authority numbers for 1966 – 1975 when such numbers are not available to me.

The ADA scores for the Chairman of the Senate Finance Committee and the House Ways and Means Committee is available from the ADA website at:
http://www.adaction.org/pages/publications/voting-records.php (Accessed 27th February, 2010). The only data which was missing was for 1975 for Russell B. Long, the Chairman of the Senate Finance Committee between 1965 and 1981. I use the average ADA score assigned to him for the years 1966 – 1974 and 1976 – 1980 instead in the estimation.

The personal income tax rates are available at:

http://www.taxfoundation.org/files/federalindividualratehistory-200901021.pdf (Accessed 28th February, 2010).

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