

# United States Senate

WASHINGTON, DC 20510

December 20, 2019

The Honorable Steven T. Mnuchin  
Secretary  
U.S. Department of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Secretary Mnuchin:

We write today to express concern over the troubling trends within the Internal Revenue Service (IRS) Criminal Investigation (CI) Division's Annual Report for Fiscal Year (FY) 2019. Released on December 5, 2019, this report illustrates the continuing decline in the number of investigations initiated by the IRS CI Division and features a drastic drop in the volume of tax fraud identified in FY2019 compared to previous years. On March 8, 2019, we wrote to IRS Commissioner Rettig urging the IRS to strengthen its enforcement efforts. In reviewing the annual report, it is clear that tax-cheats and fraudsters continue to outfox this Administration's tax enforcement regime. We urge the Treasury Department to commit to prioritizing enforcement efforts to identify and combat tax fraud, tax evasion, and money laundering.

The IRS CI Division is the only federal agency authorized to investigate and recommend prosecution on federal income tax cases.<sup>1</sup> Whether identifying tax schemes, investigating narcotics and terrorist financing, or examining emerging cybercrimes, the IRS CI Division plays a vital role in enforcing our federal tax code. Maintaining a robust and well-sourced enforcement regime helps provide a strong benefit to taxpayers across the country. Every \$1 invested in tax enforcement has the potential to produce more than \$5 in revenue, with additional, indirect savings from deterring tax evasion potentially worth more than three times that amount.<sup>2</sup>

It is deeply troubling that the IRS CI Division only identified \$1.8 billion in tax fraud during FY2019, an 81 percent decline compared to the \$9.7 billion in tax fraud identified in FY2018. If we fail to address financial crimes, we risk irreversible reputational harm to our federal tax system by compromising the integrity of our compliance regime. We cannot allow criminals, bad-actors, and tax-cheats writ-large to flout the system avoid paying their fair share in taxes, or enable more serious financial crimes such as money laundering.

Repeated efforts by Republicans to slash IRS funding—which undoubtedly has forced the Service to cut staff—have resulted in nearly across-the-board decreases in the number of investigations initiated by the IRS CI Division. In a May 2, 2019, response to our previous letter, IRS Commissioner Rettig pointed to decreased numbers in special agents and professional staff, projected losses of special agents in the coming years due to attrition and retirement, and a diminishing geographic presence as contributing to the current enforcement landscape.

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<sup>1</sup> Department of Treasury. *IRS: Criminal Investigation Annual Report 2019*. 2019.

<sup>2</sup> Department of Treasury. *Internal Revenue Service FY2020 Budget in Brief*. 2019.

Echoing those views, in a recent call to discuss the release of the annual report, IRS CI Division Chief Don Fort brought up reductions in staff as one of the key drivers behind the downward trend in the number of investigations initiated and the falling number of prosecutions.<sup>3</sup> As illustrated in the report, the IRS CI Division initiated 2,485 cases in FY2019, a 53 percent drop from the 5,314 cases initiated in FY2013.<sup>4</sup> As bad actors continue to invent new, complex ways to shirk their tax liabilities and engage in criminal activity, we need an IRS CI Division that is equipped with the resources necessary to bring these criminals to justice. A strong and effective enforcement regime is paramount to ensure that all taxpayers are operating within the law and are paying their fair share.

Just last week, the Department of Justice announced a \$192 million deferred-prosecution agreement with the Swiss banking unit of HSBC Holdings after they were found to have assisted U.S. clients with tax evasion by hiding income and assets in offshore accounts for ten years.<sup>5</sup> When we allow our financial system to be exploited, the average American taxpayer is left holding the bag.

The IRS CI Division's release of its FY2019 Annual Report marks its 100th year as a law enforcement agency. This is a milestone worth celebrating, and to be clear, a number of data points within the report deserve commendation. In FY2019, the IRS CI Division achieved a conviction rate of 91.2 percent and emphasized enforcement of employment taxes and tax-schemes surrounding virtual currencies. Unfortunately, we also believe it was a missed opportunity to celebrate the great work being done at the IRS CI Division and to highlight just how far this vital law enforcement agency has come. Instead, this report illustrates the consequences of misguided efforts to hamstring the IRS and the CI Division through underfunding. It is not too late to reverse course.

The Treasury Department must do more to prioritize the elimination of criminal activity in the financial sector. We will continue to advocate for providing adequate resources so those at Treasury, the IRS, and the CI Division can continue working to deter tax evasion, cracking down on criminal activity, and strengthening enforcement efforts. We urge you to do your part to protect the integrity of our financial system by prioritizing enforcement efforts at Treasury and the IRS, especially of financial crimes that may be linked to money laundering. We look forward to your response.

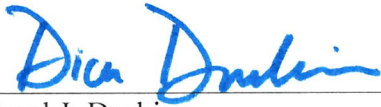
Sincerely,

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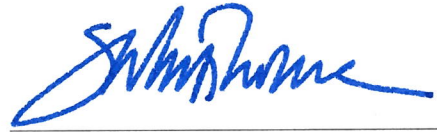
<sup>3</sup> Accounting Today. *IRS Criminal Investigation expects to hire more agents, pursue more crypto cases.* December 5, 2019. <https://www.accountingtoday.com/news/irs-criminal-investigation-expects-to-hire-more-agents-pursue-more-cryptocurrency-cases-in-coming-year>.

<sup>4</sup> Department of Treasury. *Internal Revenue Service Criminal Investigation Fiscal Year 2013 National Operations Annual Business Report.* 2013.

<sup>5</sup> The United States Department of Justice: Office of Public Affairs. "Justice Department Announces Deferred Prosecution Agreement with HSBC Private Bank (Suisse) SA." December 10, 2019. Press Release No.: 19-1368. <https://www.justice.gov/opa/pr/justice-department-announces-deferred-prosecution-agreement-hsbc-private-bank-suisse-sa>



Richard J. Durbin  
United States Senator



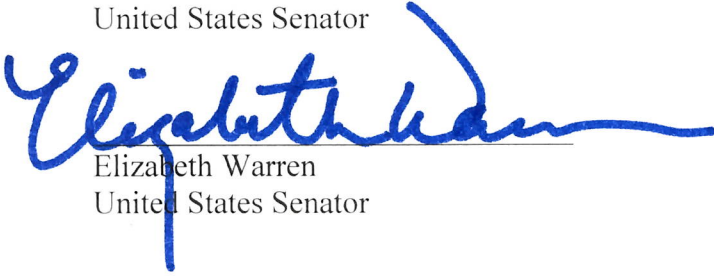
Sheldon Whitehouse  
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Richard Blumenthal  
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