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Tax Collections Are Up 23% As Inflation, Wages And Profits Rise

Tax collections this year in the U.S. are up 23% compared to last year, according to a new study by the Tax Foundation citing Congressional Budget Office data. Inflation seems to be everywhere.

The Tax Foundation's report on surging IRS collections might make you scratch your head and wonder what could happen with even more resources devoted to IRS collections. The Consumer Price Index (CPI) is up 8.3% over last year overall, and some numbers are a lot worse. Just take food for example (up 11.4%) and energy (up 23.8%). However, it appears that wages in the U.S. have grown, too.

As to taxes, federal tax collections do not figure as part of the CPI, but it appears that federal tax collections are inflated, too – up 23% over the last year according to the Congressional Budget Office (CBO). In fact, at the current pace, federal tax collections will reach a record high of about $5 trillion in nominal dollars for the fiscal year (FY) 2022 ending September 30, which is about $1 trillion more than last year's $4 trillion in collections (also a record).

- Notably, individual income tax collections have surged the most, up 32% from $1.8 trillion last year to $2.4 trillion this year.
- Payroll taxes are up 14% from $1.2 trillion last year to $1.4 trillion this year, while corporate taxes are up 12% from $285 billion to $319 billion.
- Other revenues are up 17% from $281 billion to $328 billion.

Inflation means higher prices and wages. Higher prices and wages mean higher business profits and salary. More profits and salary mean higher business and individual tax receipts.

In fact, federal tax collections are approaching the all-time high of 20.5% of GDP set in 1943 during World War II. Compared to average federal tax collections in the post-war era of 17.2% of GDP, this year's collections are set to exceed that level by 3 percentage points.

Unfortunately, the suggestion that tax collections might put us in better fiscal shape than we thought is not likely to quell concerns about taxpayers who are audited, or taxpayer fears that more IRS funding means more audits.

The optimistically named Inflation Reduction Act pumps up to $80 billion into the IRS. The funds are for increased enforcement, operational improvements, customer service, and systems modernization. That money is more than six times the current annual IRS budget of $12.6 billion. A whopping $45.6 billion is for enforcement so that the IRS can get better and faster at collecting taxes.

According to some reports, the IRS could hire up to 87,000 new agents, and with more than $45 billion being shoveled into enforcement, many people assume that there will be more audits, and that Congress's fiscal foot on the

IRS gas pedal should more taxpayers forking over money, and a richer horde of tax money to fuel the federal government. Tax collections are made up not only from money collected in IRS audits and deficiency assessments, and not only from IRS enforced collection activities like levies.

Indeed, the bulk of the monies come in the old fashioned way, by taxpayers listing their income on their tax returns and sending it in to the IRS. We have a largely voluntary tax system that counts on taxpayer voluntary compliance. Yet today, there remains palpable fear on main street that new IRS funding will mean more audits, or more aggressive audits of at least some taxpayers. Some happy news about bigger tax collections may not change that.

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