

IRS News: More Audit, Fewer Audits, or No Audits. Will You Be Audited?

Inflation Reduction Act of 2022 among other expense line items allocated \$80 billion to the Internal Revenue Service (IRS) for the next 10 years. There have been many promises and concerns how the money will be spent. Remember the promise that the agency will not use the money to focus on small businesses or households earning less than \$400,000 a year?

On Tuesday, November 1, National Taxpayer Advocate¹ Erin Collins expressed doubt that such approach is fair. "We want a fair system. ... You don't want people who are not filing tax to feel like, 'I don't have to because now the IRS is walking away.' I am concerned that between Congress, the secretary, and the press, we keep talking about this magical \$400,000 number. We do want a fair system. We want people to pay their proper taxes. Do I want a huge percentage of people audited? No. But we want the right taxpayers audited." – said she.

Do her words mean higher number of audits remain to be seen, but if you want to know my opinion please continue reading.

For any person who can do simple math and who followed the discussion of the IRS funding over the years, the need for the additional funding has been obvious:

1. The current IRS budget is 15% lower than ten years ago when accounting for inflation.
2. The agency has 38,000 fewer workers than it had in 1992.
3. The IRS loses about 8,000 workers a year to retirements or resignations.
4. At the end of May 2022, the IRS had a backlog of 21.3 million unprocessed paper tax returns, an increase of 1.3 million over the same time last year.
5. At the same time US population increased by 32% since 1992 thus indicating the increased amount of processing required.

Personally, I am kind of skeptical about the first two points, as full-time employees could have been replaced by sub-contractors and inflation adjustments are sometimes tricky and subjective. Moreover, in the last 30 years we had a tremendous increase in productivity due to new technologies that successfully transferred some of the workload from humans to computers and from customer service representatives to the taxpayers. How often now a taxpayer instead of calling the IRS creates an account and downloads the required information herself? This has become a routine. Does it indicate that we have reached 100% computer literacy? Probably not.

The IRS have been accused of looking to hire 87,000 auditors. I doubt that all of 87,000 new hires will be agents and auditors. For example, in late October, the IRS added 4,000 customer service representatives to help prepare for the 2023 tax season.

Some Republicans are concerned that \$80 billion in new IRS funding will be used to surveil Americans' bank accounts, an action that they strongly opposed. Sen. Chuck Grassley, R-Iowa and Sen. Jon Thune, R-S.D. are working on attaching an oversight to the original bill. "Our bill will ensure that the IRS is answerable to the American people in how it uses this money and will force it to forfeit funds every day it's not in compliance," Grassley said. Under their pending bill, the IRS would have to report to

¹ National taxpayer advocate office was established in 1996. It reports directly to the Commissioner of Internal Revenue consists of approximately 1,800 employees. About 1,400 of these are Case Advocates, who personally assist taxpayers in resolving their problems with the IRS.

Congress each year on how it intends to use the money, and that plan would be subject to a resolution of disapproval in Congress. It would also require the IRS and Department of Treasury to provide quarterly updates on its plan in a bid to make it easier to spot the misuse of funds or possible violations of taxpayer rights.

In other words, the funding allocated by Inflation Reduction Act of 2022 will continue to be a part of political football depending on the party that constitutes the majority in Congress. But one point is crystal clear: considering the growth of the tax gap² both political parties will sooner or later have to deal with some level of the additional tax enforcement. Maybe it will not be as widely spread as originally planned by authors of the Inflation Reduction Act and, more likely than not, no group of the taxpayers will be exempt from the scrutiny.

Later this year president Biden will appoint a new IRS Commissioner. It will be up to the new Commissioner to set priorities and the direction of the agency.

² The Tax Gap is the difference between the expected tax collection and the actually collected amount of taxes.