

### Re-visiting the IRS increased funding.

The Inflation Reduction Act was signed into law on August 16, 2022. It allocated \$79.6 billion to the Internal Revenue Service over the next 10 years:

- \$45,637,400,000 of this amount goes towards enforcement – different types of audits.  
\$3,181,500,000 for taxpayer services;  
\$25,326,400,000 for operations support;  
\$45,637,400,000 for enforcement.  
The remainder of the funding will go to the U.S. Tax Court, the Treasury Inspector General for Tax Administration, and the Treasury Department’s Office of Tax Policy.  
*My comment:* We can expect the number of audits to gradually increase especially for self-employed and high-income individuals.
- According to Bloomberg report the IRS has lost more than 23,000 employees since 2010. The tax agency is going to lose approximately 50,000 more in the next five years due to retirement.  
*My comment:* Thus, it seems that there will be a reasonable increase of the IRS personnel.
- Last May, National Taxpayer Advocate Erin Collins revealed in her midyear report to Congress that the IRS had a backlog of 21.3 million unprocessed paper tax returns, an increase of 1.3 million over the same in 2021. She also said there were eight-month backlogs in processing taxpayer correspondences.  
*My comment:* New IRS employees will be asked to address the backlog first.

This huge amount of funding, hopefully, is not a blank check. Treasury Secretary Janet Yellen asked the IRS in late August to produce a six-month plan detailing exactly how the new resources will be deployed over the next decade; Kevin McCarthy, the republican leader in Congress, has said republicans will revoke the IRS’ \$80 billion over 10 years the IRA provided as the new majority’s first act. This does not look to be realistic. It seems more likely that the US Congress would require IRS to provide an annual plan on how it would spend the Inflation Reduction Act money.

### A Contractor or an Employee: the IRS will skew it to their advantage.

Worker classification remains a priority to the federal government. The IRS continues to seek back payroll taxes and penalties from firms that wrongly treat workers as contractors. Unreported or underreported employment taxes make up a big chunk of the overall federal tax gap.

Being able to work for multiple firms and providing your own tools needed for the job are indicative of the independent contractor status. Written language in a contract stating the worker is an independent contractor isn’t determinative under this factor. There might be a relief from the re-classification. It is apparent that the number of workers that potentially could be re-classified as employees will continue to increase with the latest regulations in place.

Please note that each state has its own laws and policy on the issue. Some states have much more stringent regulations on the classification than others. This year some states expanded the enforcement

through the increased number of audits. I also observe the tightening of the audit criteria and hardening of the negotiation positions regarding workers' classifications.

Please note that an employer is personally responsible for most of the underpaid employment taxes. Consult your tax advisor if you should expand your payroll to avoid workers' classification issues.

#### *IRS delays Form 1099-K \$600 reporting threshold*

Only a few weeks ago I shared with all of you the information regarding new reporting rules for 2023 regarding Form 1099-K. I also indicated there about some concerns regarding the inconsistencies in this reporting. See my comments on the matter at:

<https://vertagroup.com/media/New%20Requirements%20for%20Form%201099-k.pdf>

On Friday the IRS announced a delay in the \$600 reporting threshold for third-party settlement organizations, which had been in effect for the 2022 calendar year. As a result, the IRS says third-party settlement organizations will not have to report tax year 2022 transactions on a Form 1099-K<sup>1</sup>.

Last week, the American Institute of CPAs (AICPA) sent a letter to the chairs and ranking members of the Senate Finance and House Ways and Means Committees, expressing "deep concerns" about the implementation of the \$600 reporting threshold. In that letter the AICPA warned that the lower threshold would "lead to significant confusion in the tax system in the next several months." The AICPA also was concerned that an IRS matching program for 2022 Forms 1099-K could "result in significant taxpayer misunderstanding, and also lead to a growth in the IRS correspondence and processing backlog."

We all just got a breather and the IRS gained some more time to think through the right implementation of this new policy.

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<sup>1</sup> Third-party settlement organizations generally include banks or other organizations such as PayPal and Venmo that process credit card transactions on behalf of a merchant and make an interbank transfer of funds to the merchant from a customer.