

68th Annual Taxation Conference

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IRS EMPHASIS ON TAX FRAUD ENFORCEMENT



Presented By:
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Board Certified in Tax Law by the
Texas Board of Legal Specialization

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IRS Commissioner Charles Rettig

- ❖ “You should expect this commissioner to encourage people in the Internal Revenue Service to look with a skeptical look at the people who actually think the tax return is in some nature an offer to negotiate. A tax return is not an offer to negotiate. A tax return is signed under penalty of perjury. Often it's prepared by a preparer who has extensive experience. I understand you rely on the information the taxpayer provides, but you have to have some reasonable basis to rely on that information.”
- ❖ “Don't read and think the IRS is resource challenged and therefore they're not going to get to me. When we get to you, we've got you, the taxpayer. That's how I was brought up as a tax lawyer, and I think that's how everybody should actually focus in terms of going forward. When the IRS gets there, they're going to get there.”

IRS Personnel

- ❖ IRS Commissioner Charles Rettig
- ❖ Damon Rowe, Esq., Executive Director, Fraud Enforcement Office, Small Business and Self-Employed Division, Internal Revenue Service
- ❖ Carolyn Schenck, National Fraud Counsel
- ❖ Brendan O'Dell, Esq., Promoter Investigations Coordinator, Office of the Deputy Commissioner, Services and Enforcement, Internal Revenue Service
- ❖ Eric Hylton, Commissioner, Small Business/Self-Employed Division, Internal Revenue Service
- ❖ Jim Lee, Chief of IRS Criminal Investigations

IRS Using Data Analytics and AI

- ❖ In 2011, the IRS created the Office of Compliance Analytics
 - I.R.M. 1.1.1.4(5): "Office of Compliance Analytics (OCA) partners throughout the IRS and beyond to both develop and accelerate strategic data-driven compliance initiatives as well as strengthen the Services' analytic problem-solving capability."
- ❖ IRS is upping its data analytics and artificial intelligence game
 - Data mining to analyze large data sets ("big data")
- ❖ IRS hopes to use big data mining and complex models to predict behaviors
 - Utilizing same types of sophisticated models that track and combat credit card fraud
- ❖ IRS is using data analysis and the "robo-auditor" to further investigative leads and efforts given the reduced human staff

IRS Using Data Analytics and AI

- ❖ IRS has expanded its data gathering to public commercial data:
 - Social Media — IRS may be using spiders to analyze your social media posts
 - Credit Reports
 - Credit/debit card processors
 - eBay/PayPal
 - Public filings
- ❖ IRS analyzing information from:
 - Prior year tax returns and information returns
 - Data gathered from third party sources (offshore and cryptocurrency summons information)
 - IRS proprietary databases

Common Badges of Fraud

- ❖ Understating income
- ❖ Maintaining inadequate records
- ❖ Giving implausible or inconsistent explanations of behavior
- ❖ Concealing income or assets
- ❖ Failing to cooperate with tax authorities
- ❖ Engaging in illegal activities
- ❖ Providing incomplete or misleading information to one's tax preparer
- ❖ Giving testimony that lacks credibility
- ❖ Filing false documents, including filing false income tax returns
- ❖ Failing to file tax returns
- ❖ Dealing in cash

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