Navigating the challenges of the IRS

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Discussion topics

- Current IRS environment
- IRS Enforcement Initiatives
- Potential IRS Audit Risks for Colleges and Universities
- Strategies for Involving Stakeholders Across the Institution to Promote Tax Compliance and Get and Institution Prepared for Potential IRS Scrutiny
- Considerations for Effectively Interacting with the IRS

Current IRS environment

COVID Impact on IRS Operations

- Significant delays continue in return processing, payment processing, refund issuance, elections, abatements, correspondence review, etc.
- Level of service for telephone assistance (calls answered vs calls received) is at lowest level in more than a decade
- Service centers still not operating at full capacity
- Backlog in processing mail (paper returns, payments, notice responses)
- Revenue Agents, Revenue Officers, Counsel and Appeals operating virtually

Overall IRS staffing down from 100,000 in 2020 to roughly 75,000

- Approximately $1B in cuts since 2010
- FY 2021 budget provided 4.3% increase over 2020 budget included additional enforcement hiring and technology enhancements
- Administration's 2022 budget proposal includes $80B increase in IRS budget over next 10 years - effectively doubling the size of the IRS
- Administration projects increased funding would result in additional $200B in increased tax revenue over 10 years
- Majority of increased funding would be devoted to enforcement and efforts to reduce the tax gap
- Significant increases in audits, focus on large corporations, high wealth individuals, crypto currency initiatives, increased information reporting (bank account balances)

Current IRS environment

Current challenges	**Administration proposal's to close the tax gap**	**What's next**

Current challenges

- **IRS backlog** - over the last 3 filing seasons
- **Workforce Challenges** - in both external hiring and staff retention
  - Number of external hires was exceeded by the number of retirements/separations from the IRS

Administration proposal's to close the tax gap

- Proposed $80B increase in funding for IRS over next decade
- Result would mean more than 100% increase in the IRS enforcement budget
- Increased funding for data analytics and strategies to identify noncompliance
- Significantly expand third-party information reporting

What's next

- IRS focused on stemming decade long trend of declining audit coverage
- Plans to to increase hiring
- IRS ramping up use of specialists to assist with complex audits and emerging issues
- Provide new and improved online tools for taxpayers to communicate with the IRS easily and quickly.

Current IRS environment

IRS is integrating data analysis with artificial intelligence

- Revenue authorities are depending more on algorithms and AI to ingest data from diverse sources, identify patterns, and predict filing behaviors
- Reliance on data analytics to inform decision making is listed among the IRS's six key goals in its strategic plan for fiscal years 2018 through 2022
- IRS contends that the use of such technology will result in a fairer and more cost-effective audit process by allowing focus on greatest probabilities of noncompliance

IRS enforcement initiatives – FY 21 TE/GE accomplishments letter

Deliver a compliance platform of six programs that together promote tax law compliance by tax exempt and government entities (TE/GE FY 21 Accomplishments Letter: https://www.irs.gov/pub/irs-pdf/p5329.pdf)

- **Compliance Strategies**: Issues approved by the TE/GE CGB to identify, prioritize and allocate resources within the TE/GE filing population.
- **Data-Driven Approaches**: Data and queries based on quantitative criteria, used to identify high risk areas of noncompliance, and focus on issues with the greatest impact.
- **Referrals, Claims and Other Casework**: Referrals of alleged noncompliance from internal and external sources, and claims for refunds, credits or adjustments.
- **Compliance Contacts**: Correspondence contacts, known as compliance checks, addressing potential noncompliance, and educational letters to limit costs and taxpayer burden.
- **Determinations**: Letters issued to exempt organizations on exempt status, private foundation classification and other determinations related to exempt organizations, and qualified retirement plans that meet legal and regulatory requirements.
- **Voluntary Compliance and Other Technical Programs**: The Voluntary Correction Program (VCP) enables a plan sponsor (at any time before examination) to pay a fee and receive IRS approval for correction of plan failures. Other technical programs, including Knowledge Management (KM), work to ensure the quality and consistency of technical positions, provide timely assistance to employees and preserve and share TE/GE's knowledge base.

Title search: Navigating the Challenges of the IRS

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