

McGuireWoods

IRS Scouting Report

Stanley M. Johanson Estate Planning Workshop

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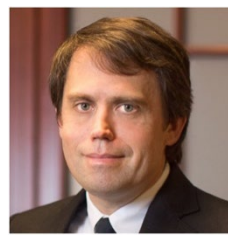
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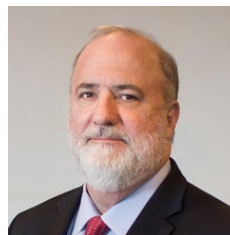
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IRS Scouting Report: Uncovering Tax Trends to Better Plan and Prepare

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Trust and Estate Scouting Report: Uncovering Tax and Fiduciary Trends to Better Plan and Prepare¹

LEGISLATIVE AND REGULATORY DEVELOPMENTS

1. Update on IRS Funding (September 15, 2022)

Yellen outlines plan for increased IRS funding; targets taxpayer experience and fairness

With passage of the Inflation Reduction Act of 2022, Congress agreed to a significant increase in funding for the Internal Revenue Service. In total, the budget for the IRS will increase by nearly \$80 billion.

The following table provides the Short-, Mid-, and Long-Term AFR (for annual compounding) published in Revenue Ruling 2022-17.

IRS Funding Increases by Function	
Enforcement	+\$45.6 billion
Operations Support	+\$25.3 billion
Business System Modernization	+\$4.8 billion
Taxpayer Services	+\$3.2 billion
Other	+\$0.7 billion
Total	+\$79.6 billion
Source: https://taxfoundation.org/inflation-reduction-act-irs-funding/ ; Inflation Reduction Act of 2022, https://www.democrats.senate.gov/07/27/2022/inflation-reduction-act-of-2022 .	

On September 15, 2022, in a visit to an IRS facility, Secretary of the Treasury Janet Yellen laid out priorities for allocation of the increased budget.

- Treasury will fully staff the IRS Tax Assistance Centers, where individual taxpayers can get help at an in-person location. By adding resources, it will triple the number of taxpayers that can be served. In the last filing season, 900,000 Americans were helped in these Tax Assistance Centers. With increased funding, Treasury estimates that up to 2.7 million

¹ These materials are based on materials prepared by Andrea Chomakos, Charles D. Fox IV, Kristen Hager, Meghan Gehr Hubbard, Sean Murphy, Stephen W. Murphy, William I. Sanderson, and Farhan Zarou of McGuireWoods LLP.

Americans can be served. Yellen noted that one study suggests the average taxpayer spends 13 hours preparing and filing a return, compared to taxpayers in Sweden that can file returns by responding to a text message.

- The IRS will add 5,000 jobs at call centers. In earlier filing seasons, call centers averaged a 10%-15% “level of service,” meaning 2 of every 10 calls were answered. The additional funding will greatly improve this, and Treasury has set a minimum expectation to reach the 85% level of service. Treasury estimates that 5 times the number of calls will be answered. Yellen noted that on just one day, March 15, 2021, the IRS received 8.6 million phone calls.
- The funds allocated for business modernization will largely be allocated to digitizing the current manual processes. In many cases, IRS employees manually transcribe paper returns. For the next filing season, the IRS will scan paper returns, leading to fewer errors, faster processing, and faster refunds. In addition, the IRS will increase capability for taxpayers to engage with the IRS online, including responding to notices.
- Treasury will engage “industry-leading customer service experts from the private sector” to advise on modernization efforts and best practices.

In addition to updating the systems and processes, the IRS will dedicate increased budget resources to enforcement. Yellen addressed the “tax gap,” or the amount of tax that goes unpaid under current laws. Citing the Treasury Department studies, Yellen estimated taxes that will go uncollected over the next decade could be as high as \$7 trillion. To address this, Treasury will focus enforcement priorities on taxpayers with income over \$400,000. In addition to the increase of audits on high earners, the increased presence will address large, complicated corporate returns (averaging 6,000 pages/return) or partnerships (where one-third of the income is reported annually).

For more on the remarks delivered by Secretary Yellen and the statistics cited, see: https://home.treasury.gov/news/press-releases/jy0952#_ftnref10.

2. Washington D.C. – Administrative Roundup

This section provides headlines of interest to practitioners following IRS and Treasury administrative matters

- **June 28, 2022: IRS, Treasury Issue Guidance Under Section 2053 Regarding Deduction for Interest Expense and Amounts Paid Under a Personal Guarantee, Certain Substantiation Requirements, and Applicability of Present Value Concepts (REG-130975-08).** The proposed regulations provide guidance on the proper use of present-value principles in determining the amount deductible by an estate for funeral expenses, administration expenses, and certain claims against the estate. In addition, the proposed regulations provide guidance on the deductibility of interest expense accruing on tax and penalties owed by an estate, and interest expense accruing on certain loan

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Title search: An IRS Scouting Report: Areas of Audit Focus in the Estate Planning Arena

First appeared as part of the conference materials for the
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