What To Expect From the IRS' $80 Billion Strategic Operating Plan

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In August 2022, the Inflation Reduction Act (IRA) was signed into law, allocating approximately $80 billion to the Internal Revenue Service (IRS) over the next decade to improve the way it serves the public.

On April 6, 2023, the IRS published a Strategic Operating Plan summarizing how it intends to spend the funds. The plan sets out 42 initiatives to fulfill five broad objectives:

- Improving the taxpayer experience to help taxpayers meet their obligations and receive tax incentives for which they are eligible.
- Quickly resolving taxpayer issues when they arise.
- Focusing expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap.
- Delivering cutting-edge technology, data and analytics to operate more effectively.
- Attracting and retaining a skilled, diverse workforce and developing a culture that is better equipped to deliver results for taxpayers.

The Congressional Budget Office estimates that the $80 billion will result in an increase in federal revenue of over $180 billion in the decade ahead, and the IRS predicts this figure is likely to be even greater. As a result, we anticipate that there will be an increase in enforcement efforts, both for taxpayers currently under constant audit and those who are not.

At a minimum, corporations, partnerships and high-income individuals who are under constant audit should expect larger audit examination teams as well as investigation of more issues. For larger corporations, partnerships and high-income individuals that have not yet been audited, or are not under constant audit, we anticipate a greater likelihood of being selected for audit due to an increase in IRS staff and technology flagging potential issues.

Faster Resolution of Issues

One of the IRS's key goals in deploying these funds is to quickly resolve taxpayer issues by expanding tax certainty and issue-resolution programs, including the creation of new pre-filing programs allowing taxpayers to settle potential compliance issues up front. The plan also calls for adequate staffing of existing programs that have under-delivered to taxpayers.

In order to achieve this objective, steps would include:

- Expanding capacity, eligibility and accessibility for current pre-filing programs.
- Refining existing programs to address challenges.
- Developing additional, tailored tax certainty programs.
- Removing user fees from programs where appropriate.

The IRS will first engage in outreach and campaigns to increase awareness of existing programs, then launch a pilot program to invite taxpayers to participate in pre-filing programs and identify priority areas for new tax certainty programs. The last phase would involve hiring specialists to expand existing programs.

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Expanded Enforcement To Target Complex Filings and High-Dollar Compliance

Another key goal is to address the tax gap by expanding enforcement with regard to taxpayers with complex tax filings and high-dollar noncompliance. Businesses and households earning $400,000 or less will not see increased enforcement, the plan states. Instead, the focus will be on audits of large partnerships, large corporations, and high-income and high-wealth individuals. The IRS plans to use enhanced data and analytics to select compliance cases based on the highest risk of noncompliance, though it is unclear what this will mean in practice. This initiative is broken into a number of sub-initiatives, as summarized below.

Improve the selection of cases. The IRS plans to employ improved analytics to aid in the selection of cases where the risk of noncompliance is predicted to be high, choosing enforcement approaches that maximize opportunities to improve and sustain taxpayer compliance. Steps would include:

- Building a centralized function for compliance planning and strategy.
- Building a unified compliance organization that enhances centralized case-planning and strategy and enables the IRS to refine business processes.
- Establishing a dynamic model for workforce allocation.
- Centralizing compliance analytics and developing a process to regularly model the population of tax returns.
- Developing a process for continually refining compliance analytics models based on feedback and new information.
- Developing and implementing a plan to improve the IRS Whistleblower Program.

For large corporate taxpayers that are currently audited each year, it is unclear whether this initiative would result in an increase in coordinated audit approaches (with multiple taxpayers receiving "form" information document requests relating to specific issues that the IRS has elevated for attention). For taxpayers not currently under yearly audits, it is unclear how it would be determined which cases or particular taxpayers are at the highest risk of noncompliance.

Increase enforcement activities. The plan aims to ensure tax compliance of large corporations and partnerships, and high-income and high-wealth individuals by increasing audit rates and other compliance treatments. Steps would include:

- Hiring and training staff needed to achieve appropriate compliance.
- Increasing staff in the Independent Office of Appeals to resolve any tax controversies arising from enhanced compliance efforts.
- Increasing staff in the Office of Chief Counsel to support compliance and appeals and to litigate cases.
- Refining approaches for enforcement and exploring new treatments using data and analytics.

Under the plan, the IRS also intends to increase enforcement in key areas where audit coverage has declined while complying with the Treasury's directive not to increase audit rates relative to historical levels for small businesses and households earning $400,000 per year or less. These key areas include employment, excise, and estate and gift taxes.

Like the initiative described above, this one would also entail adding and training compliance staff, expanding the Independent Office of Appeals and Office of Chief Counsel staffs, and improving analytics. In addition, the plan states that this initiative would require developing enforcement approaches and compliance treatments tailored to each area where enforcement will be expanded.

Enhance detection of noncompliance. The plan calls for enhanced detection of noncompliance as well as increased enforcement activities for complex, high-risk and novel emerging issues, including digital assets, listed transactions and certain international issues.

Key steps to achieve this initiative include:

- Mobilizing resources to focus on high-risk and emerging issues that have not received appropriate enforcement attention.
- Improving, expediting and scaling detection of emerging issues, including building stronger feedback processes from all parts of the IRS.
- Establishing processes to respond more rapidly to emerging issues and develop treatments that can be deployed quickly and integrated into enforcement efforts.
- Hiring and training staff needed to achieve appropriate compliance rates.

Promote fairness in enforcement activities. Under the plan, the IRS intends to promote fairness for taxpayers by addressing noncompliance in a balanced manner. This will be achieved by using research and data to help enforce tax laws and curtail any potential disparities in tax administration. The intends to regularly assess whether enforcement actions are disproportionately burdening certain demographic groups or customer categories and make adjustments.

However, the plan notes that the additional funds provided by the IRA will not be used to increase audits of households or small businesses below the $400,000 threshold.

In order to achieve these goals, steps include:

- Developing procedures to regularly evaluate the fairness of systems, selection tools and programs, compliance strategies and treatments.
- Improving enforcement practices to help ensure fairness in compliance and enforcement.
- Hiring and training staff who enable enforcement strategies that match risk and degree of noncompliance.

This initiative, too, would rely in part on increased staff at the Independent Office of Appeals and Office of Chief Counsel. The IRS hopes to increase trust in the service, thus increasing voluntary compliance.

Conclusion

While the plan lists 42 total initiatives, it is clear that the focus is on using resources for detection of noncompliance and enforcement of tax laws, especially for large corporations, large partnerships and high-income individuals. At the same time, the plan seeks to offer clearer guidance in a proactive manner, which may prevent certain pitfalls in the filing process. The timeline to implement these changes spans several years, depending on the objective, with the earliest changes taking place in the 2023 fiscal year.