*The following is the text of a letter sent to members of Congress on Sept. 18, 2023 by IRS Commissioner Danny Werfel updating them on agency enforcement efforts and efforts to address audit disparity issues in areas such as the Earned Income Tax Credit.*

Following the one-year anniversary of enactment of the Inflation Reduction Act (IRA) and my sixth months as Commissioner, I am writing to update you on our ongoing efforts to rebalance the IRS' enforcement activities. The investment of resources under the IRA represents a generational opportunity for the IRS to refocus our energy on closing the tax gap by ensuring efficient and effective tax administration. This rebalancing effort centers around high-income and high-wealth individuals, complex partnerships, and large corporations who are not paying the taxes they legally owe, as well as any bad actors who victimize taxpayers.

This effort also recognizes that the vast majority of taxpayers want to comply with tax law. We aim to make this simpler and easier to do, while allowing taxpayers to interact with the IRS in the ways that work best for them. For the first time, and thanks to the new resources provided by the IRA, the IRS will help taxpayers identify mistakes before filing, quickly fix errors that delay their refunds, and claim the credits and deductions they are eligible for. Helping taxpayers get it right at the time of filing will reduce the need for the IRS to contact taxpayers through notices, correspondence audits, and other enforcement activities. To that end, the changes we are making benefit all Americans by promoting fairness and accuracy and protecting all taxpayers from scams and schemes.

Following a top-to-bottom review of enforcement and in line with our Strategic Operating Plan, IRS has begun announcing sweeping efforts to overhaul compliance efforts to improve tax administration. For example, IRS is intensifying collections activities that focus on high-income taxpayers with more than $250,000 in recognized tax debt. This builds off earlier successes that collected $38 million from more than 175 high-income earners this past spring. In addition, IRS staff are closely examining potential non-compliance among large, complex partnerships, including 75 of the largest partnerships in the U.S. identified as higher risk for tax compliance with the help of new AI tools as well as hundreds of partnerships with over $10 million in assets and balance sheet discrepancies. In the near term, we will be sharing details regarding our stepped-up activities to address non-compliance among large corporations. These changes, which leverage the IRA's investment in modernized technology, expanded data science, and right sizing of our workforce, will significantly improve the IRS's ability to address the tax gap, which was projected to be $540 billion per year for 2017-2019.

As the next step in our efforts to improve fairness in tax administration, we are also realigning resources internally to accelerate progress against our strategic priorities. In FY 2024, we will be substantially reducing the number of correspondence audits focused specifically on certain refundable credits, including the Earned Income Tax Credit, American Opportunity Tax Credit, Health Insurance Premium Tax Credit, and Additional Child Tax Credit. Over-reliance on audits to resolve basic errors can lead to fewer taxpayers receiving credits and deductions for which they are eligible and thus decrease accuracy in tax administration, whereas focusing on helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for the IRS and the tax filer. This strategy will allow us to repurpose resources to focus on other work that better aligns with IRS' strategic priorities and further our core objectives of equitable and efficient tax administration. In advance of the next filing season, I commit to updating you on our plans to redeploy our freed-up compliance resources to focus on other pressing priorities.

As we've discussed, recent research using imputed race information estimated that Black taxpayers are audited at three to five times the rate of non-Black taxpayers. This research, the general findings of which IRS and Treasury's ongoing internal work has validated, demonstrated that the volume of exams focused on the EITC that the IRS performs is a major driver of overall disparity. The realignment to focus on high-end tax evasion and any bad actors who contribute significantly to the tax gap will therefore help reduce this disparity, in addition to its other beneficial effects for tax administration, by achieving greater balance in our examination of different sources of non-compliance.

We are taking additional steps to reduce audit rate disparities as well. We have implemented an initial round of changes to EITC case selection processes that testing suggests will increase the expected return on investment for cases selected while simultaneously reducing disparities. Specifically, this initial round of changes improves the accuracy of the automated risk scoring process by adjusting how IRS considers information about where children live. Further, we are piloting two alternative approaches to our existing EITC case selection process. We will publicly report on the results of these pilots and, if they yield the anticipated improvement for fairness and the accuracy of exam outcomes, the alternative approaches for audit selection could be the basis for further changes in a future filing season. Through our parallel efforts to help taxpayers get it right through improved service, outreach and education, and other tools, coupled with our increased focus on addressing unscrupulous return preparers and other bad actors, we are taking new steps to increase payment accuracy. We anticipate it will take several months after the end of the next filing season to determine the impact of these changes, but we are committed to monitoring, sharing our findings, and making additional improvements.

In addition, we are devoting more resources to addressing unscrupulous preparers who are leading their customers to underreport income or overclaim credits and deductions. To do so, we are leveraging data that identifies tax preparers with questionable practices. Our research suggests that these bad actors disproportionately file tax returns for vulnerable taxpayers, including low-income filers, filers of color, and those with limited English proficiency, which may contribute to higher audit rates for this taxpayer segment. Over time, we believe stepped-up efforts to stop unscrupulous preparers that target this population, will lead to higher quality tax preparation and increased return accuracy, thereby reducing the number of individual taxpayers at risk of audit.

The IRA funding will also allow us to focus even more attention on reaching underserved communities to provide education and real-time assistance in claiming available credits and incentives. This is critically important given the complexity of eligibility rules for some of these incentives, especially the EITC. We are also improving our ability to meet taxpayers where they are, to ensure they have the options that work best for them for fulfilling their tax obligations. Along those lines, as directed by the Treasury, we are moving to implement a scaled pilot of a free, IRS-run direct filing option in the 2024 filing season. Additionally, we are developing approaches to alert taxpayers promptly to potential issues, such as those related to refundable tax credits, to encourage self-correction upfront and reduce the potential for an audit, as outlined in the Strategic Operating Plan.

In summary, we are making broad efforts to overhaul compliance efforts in a manner that robustly advances our commitment to fair, equitable, and effective tax administration. I hope this information is helpful.

Sincerely,

Daniel I. Werfel
Commissioner