

IRS Statement — Updated IRS audit numbers

May 26, 2022

Today's Data Book release contains important statistics about the nature of the IRS's enforcement activities. A fact that is worth noting is that these are point-in-time estimates of the IRS's ongoing examinations for the respective tax years. The Data Book statistics released date to September 2021. This means that recent work that the agency has undertaken—for example for tax year 2019, where the IRS can continue to pursue new enforcement actions through at least 2023—is not reflected in these estimates.

It is important not to confuse the year-end statistics for any year referenced in the Data Book, or any other interim results, as final results for the most recent tax years.

In fact, it is useful to take a look at what more recent data reflect, particularly on higher-income taxpayers where examination activity is often initiated later in the statutory period (new exams can be initiated up to at least three years after a tax return is filed). The additional figures below show 2019 audit rates doubling in the last seven months for taxpayers in every income category above \$100,000. For example, based on ongoing examination activity, audit rates for income categories between \$500,000 and \$1 million doubled to 0.6%. Audit rates for the \$1 million to \$5 million category more than doubled to 1.3% and taxpayers earning more than \$10 million jumped four times – reaching 8%.

Table 1: Tax Year 2019 Audit Rates Over Time

Total Positive Income Population Ranges	Tax Year 2019 Audit Rate in Data Book: 9/30/2021	Tax Year 2019 Audit Rate as of 5/1/2022
Returns with EITC	0.8%	0.8%
No total positive income	0.8%	1.1%
TPI \$1 - \$25,000	0.4%	0.4%
TPI \$25,000 - \$50,000	0.2%	0.2%
TPI \$50,000 - \$75,000	0.1%	0.2%
TPI \$75,000 - \$100,000	0.1%	0.2%
TPI \$100,000 - \$200,000	0.1%	0.2%
TPI \$200,000 - \$500,000	0.1%	0.2%
TPI \$500,000 - \$1 Million	0.3%	0.6%
TPI \$1 Million - \$5 Million	0.6%	1.3%
TPI \$5 Million - \$10 Million	1.0%	2.0%
TPI >\$10 Million	2.0%	8.7%

While these statistics provide a more real-time estimate of the ongoing work that the IRS is taking steps toward addressing high-end noncompliance, resource constraints limit the work that the agency is able to do. There are only about 6,500 front-line, revenue agents who are in the field performing these types of exams. These resource limitations result in levels of enforcement activity at the high-end of the distribution, particularly for global high net-worth individuals, large corporations, and complex structures like partnerships are far lower than in the past. Indeed, overall audit rates for those high-end returns have substantially declined over a seven-year period. The following chart shows the decline.

Table 2: Audit Rates Over Time

	Tax Year 2017 ¹	Tax Year 2010 ²	Change in Coverage
Individual income tax returns, total	0.5%	1.0%	-50.5%
Size of total positive income ³ :			
No total positive income	6.8%	20.6%	-67.1%
\$1 under \$25,000	0.6%	1.0%	-44.2%
\$25,000 under \$50,000	0.2%	0.6%	-60.3%
\$50,000 under \$75,000	0.3%	0.7%	-51.2%
\$75,000 under \$100,000	0.4%	0.7%	-36.2%
\$100,000 under \$200,000	0.4%	0.8%	-44.5%
\$200,000 under \$500,000	0.4%	2.3%	-82.1%
\$500,000 under \$1,000,000	0.9%	3.6%	-76.3%
\$1,000,000 under \$5,000,000	1.8%	8.2%	-77.5%
\$5,000,000 under \$10,000,000	3.1%	13.5%	-77.1%
\$10,000,000 or more	5.8%	21.5%	-73.1%
Returns with earned income tax credit ⁴	1.0%	1.8%	-44.8%
Corporation income tax returns, except Form 1120-S			
Returns other than Forms 1120-C and 1120-F, by size of balance sheet assets:			
\$10,000,000 under \$50,000,000	3.8%	8.8%	-56.3%
\$50,000,000 under \$100,000,000	9.0%	18.9%	-52.4%
\$100,000,000 under \$250,000,000	9.6%	21.6%	-55.5%
\$250,000,000 under \$500,000,000	8.2%	24.2%	-66.0%
\$500,000,000 under \$1,000,000,000	10.6%	29.8%	-64.6%
\$1,000,000,000 under \$5,000,000,000	16.1%	46.1%	-65.0%
\$5,000,000,000 under \$20,000,000,000	31.4%	65.7%	-52.2%
\$20,000,000,000 or more	56.5%	86.7%	-34.8%
Partnership returns	0.1%	0.5%	-79.3%
S corporation returns	0.2%	0.4%	-53.2%

High-income individual categories

Substantially all experienced, field Revenue Agents are focused on high-income individuals and their related entities and, to a lesser degree, large corporate and complex pass-through entities. Additional enforcement funding is vital to addressing the declining audit coverage in all the various high-end

¹ IRS FY 2021 Data Book, Table 17

² IRS FY 2020 Data Book, Table 17

³ Includes all Form 1040 series returns, except 1040-PR and 1040-SS, which are included in International returns. In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual income tax return, and thus excludes losses.

⁴ Includes all returns selected for examination on the basis of an earned income tax credit (EITC) claim. Shown separately for information purposes. Counts are included in the appropriate TPI classes above.

distribution return categories. A visible, robust enforcement presence supports compliant taxpayers at all income levels.

Additional information

The release of the IRS Data Book is an annual tradition dating all the way back to 1863. While the type of data and the way it is reported has changed over the years, the goal is still the same: to provide data that are both transparent and informative to taxpayers, and to demonstrate how the IRS uses its resources to promote voluntary compliance and enforce the law. One statistic of much interest is the audit rate, or the percentage of returns filed by taxpayers which are subject to examination. This statistic is also one of the most dynamic of the data the IRS reports.

The IRS computes audit rates for several taxpayer populations for each tax year (for individuals, the “tax year” is most often the calendar year). Comparing returns filed and returns audited for the same tax year provides the most accurate measure of audit coverage, allowing for a direct and clear picture of IRS activities. Since some audits close within the same year the return is filed while others take several, the computation for audit rates includes both closed and in-process examinations as of the end of each fiscal year. Together, closed and in-process examinations provide a complete view of the application of IRS examination resources to a particular tax year’s returns.

The audit rates in the Data Book, though, are merely a “snapshot” in time, and the data will continue to change as open examinations close and new ones are opened. The number of audits for Tax Year 2019 returns may appear low because, as of the end of FY 2021, relatively few examinations had been started. The normal timing of the audit process is based on when returns are selected and the applicable statutes of limitation. As new audits of returns filed for recent tax years are opened, audit rates for those years will increase. In contrast, audit rates are less subject to change for returns filed for tax years that are past the normal statute of limitations for assessment, which is generally 3 years from when the return is filed⁵.

This is most easily observed by looking at Tax Year 2019 which is presented in the FY 2021 Data Book with audit results as of September 30, 2021. Tax returns for 2019 are filed in 2020 and may be filed on extension as late as October 15, 2020. Some audits are purposely initiated quickly in order to rapidly issue refunds to those taxpayers claiming tax credits, while audits of high income or complex tax returns are most often not initiated more than a year after the return is filed. In the seven months following the Tax Year 2019 “snapshot” displayed in the Data Book, many more audits have been started for high income taxpayers, as Table 1 above illustrates. This is similar for each year set forth in earlier versions of the Data Book for previous years.

⁵ As of the FY 2021 Data Book, Tax Year 2017 is the most recent year outside the normal statute period.