



United States Government Accountability Office

Report to the Ranking Member of the
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

January 2024

TAX COMPLIANCE

Opportunities Exist to Improve IRS High- Income/High-Wealth Audits

Accessible Version

GAO Highlights

Highlights of [GAO-24-106112](#), a report to the Ranking Member of the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

IRS audits tax returns to ensure that taxpayers are properly reporting their taxes. In recent years, IRS has audited a decreasing proportion of individual tax returns. GAO was asked to review IRS's audits of high-income/high-wealth individuals. This report examines, among other objectives, the results of these audits and IRS's efforts to audit more high-income/high-wealth individuals.

GAO analyzed IRS data on individual audits closed in fiscal years 2012 to 2022, the most recent complete year available at the time of its analysis. For the purposes of this report, GAO analyzed high-income/high-wealth taxpayer data at two different TPI thresholds—\$500,000 or more and \$10 million or more—and across four different TPI categories. GAO also reviewed IRS documents related to high-income/high-wealth audit efforts and compared IRS's efforts to key practices. GAO held 10 discussion groups with IRS staff who conduct or manage high-income/high-wealth audits and interviewed IRS officials.

What GAO Recommends

GAO is making eight recommendations to improve IRS's efforts to audit high-income/high-wealth individuals, including taking steps to assess its research efforts, audit selection models, and auditor hiring and training. GAO also recommends that IRS centralize the management of its high-income/high-wealth audit programs. IRS generally agreed with GAO's recommendations.

View [GAO-24-106112](#). For more information, contact James R. McTigue, Jr. at (202) 512-6806 or mctiguej@gao.gov.

January 2024

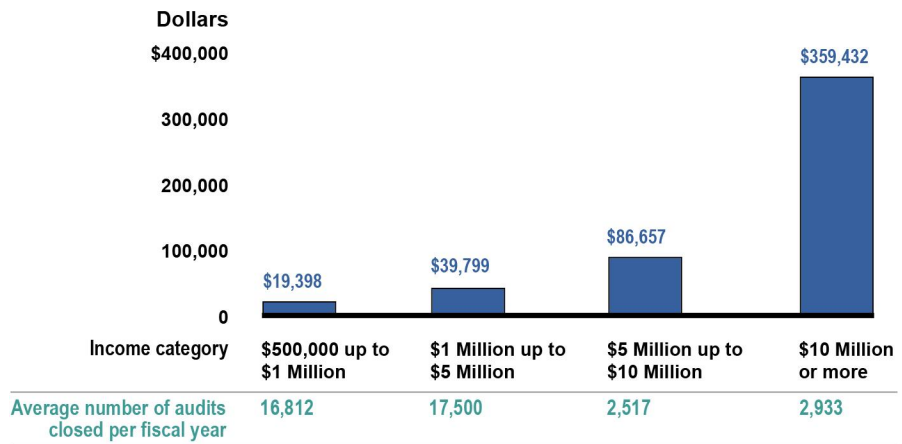
TAX COMPLIANCE

Opportunities Exist to Improve IRS High-Income/High-Wealth Audits

What GAO Found

GAO analyzed the results of Internal Revenue Service (IRS) audits of individual returns with \$500,000 or more in total positive income (TPI)—all positive income amounts on the tax return—closed in fiscal years 2012 to 2022. GAO found that, as income increased, IRS recommended more taxes per audit, on average, but generally closed fewer audits.

Average Additional Tax Recommended per Audit, Fiscal Years 2012 to 2022



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Average Additional Tax Recommended per Audit, Fiscal Years 2012 to 2022

Income category	Dollars	Average number of audits closed per fiscal year
\$500,000 up to \$1 Million	\$19,398	16,812
\$1 Million up to \$5 Million	\$39,799	17,500
\$5 Million up to \$10 Million	\$86,657	2,517
\$10 Million or More	\$359,432	2,933

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

In 2020, the Department of the Treasury directed IRS to audit at least 8 percent of returns filed each year by individuals with \$10 million or more in income. In response, IRS established two initiatives to increase the audit rate of returns with \$10 million or more TPI. GAO found that IRS is on track to meet the 8 percent audit rate goal for tax years 2018 to 2020. However, GAO's analysis of preliminary results (2 fiscal years) found that the subset of audits under these initiatives recommended less additional tax per audit, in contrast to other audits of taxpayers of similar income. IRS officials attributed the initiatives' preliminary results to auditors gaining experience with these audits, as well as closing simpler audits earlier and said that results may change over time.

IRS has taken steps to improve high-income/high-wealth auditing. However, GAO identified additional areas for improvement. For example:

Assessing data sufficiency. IRS has taken steps to improve its research of high income/high wealth taxpayers and their returns but could not demonstrate that its research is sufficient to understand the complexity and compliance of such returns. For example, IRS now measures compliance for three new high-income/high-wealth categories—\$1 million to \$5 million, \$5 million to \$10 million, and \$10 million and above—rather than one combined income level of \$1 million or more. However, according to IRS and other researchers, the audits that generate these data do not effectively identify all types of high-income/high-wealth tax evasion. IRS has not yet determined how to address these limitations.

Evaluating selection models. IRS relies on several computer models to select high-income/high-wealth returns to audit. IRS officials said they are in varying stages of developing, updating, and evaluating these models. However, IRS could not provide documented plans for evaluating these models. Until these evaluations are completed, IRS may be unnecessarily burdening compliant taxpayers and missing opportunities to address noncompliance.

Assessing hiring and training needs. IRS officials said that between 2010 and 2023, one IRS division lost more than half of its primary high-income/high-wealth audit workforce. IRS plans to hire and train staff for various auditing positions. However, it has not used a data-driven approach to assess what staffing and skills gaps may exist specifically for high-income/high-wealth audits or developed strategies for filling any gaps.

Establishing centralized management. Multiple IRS divisions collaborate on high-income/high-wealth audit efforts. However, IRS divides management responsibilities for these audits across two IRS divisions. Without centralized management for these audits, IRS may be less able to understand and improve audit results.

IRS has acknowledged the need to enhance its high-income/high-wealth audit efforts. Additional focus in the above areas could help IRS better understand the types and prevalence of noncompliance on high-income/high-wealth returns, maintain accountability for achieving objectives, and further its mission to fairly enforce the tax law.

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Abbreviations

CIP	Compliance Initiative Project
GHW	Global High Wealth
GS	General Schedule
HI/HW	high-income/high-wealth
HII	High Income Individual initiative
IRA	Inflation Reduction Act of 2022
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
NBER	National Bureau of Economic Research
SOP	Strategic Operating Plan
TIGTA	Treasury Inspector General for Tax Administration
TPI	total positive income

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January 11, 2024

The Honorable Bill Pascrell, Jr.
Ranking Member
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Pascrell:

The Internal Revenue Service (IRS) uses enforcement programs, including audits of tax returns, to address noncompliance in properly reporting taxes owed and to help reduce the tax gap. The tax gap is the difference between taxes that taxpayers should have paid and what they actually paid voluntarily and on time.

In recent years, IRS has audited a decreasing proportion of individual tax returns. In particular, audit rates for taxpayers with total positive incomes (TPI) of \$200,000 or more decreased the most.¹ At the same time, the number of returns filed in this income range has increased.

To address the decline in audit rates for the highest-income taxpayers, in February 2020, the Department of Treasury directed IRS to audit at least 8 percent of individuals with adjusted gross incomes of \$10 million or more.² To meet this goal, IRS started two initiatives: (1) a Compliance Initiative Project in its Small Business/Self-Employed division, and (2) the High Income Individual initiative in its Large Business & International division. These initiatives supplement IRS's existing workstreams that include high-income audits, as well as the Global High Wealth program, which focuses on auditing taxpayers with assets and income in the tens of millions of dollars.

In August 2022, the Inflation Reduction Act of 2022 (IRA) provided IRS with an additional \$45.6 billion through fiscal year 2031 for enforcement activities, with added emphasis from Treasury to focus on taxpayers with

¹Total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as \$0.

²Memorandum from Steven T. Mnuchin, Secretary of the Treasury, to Charles R. Rettig, IRS Commissioner, "Importance of Audit Procedures" (Feb. 10, 2020). Our analysis is based on total positive income rather than adjusted gross income because IRS typically reports on audit rates and results using taxpayers' total positive income.

incomes of \$400,000 or more.³ In June 2023, the Fiscal Responsibility Act of 2023 rescinded about \$1.4 billion of the amount appropriated for IRS by the IRA.⁴

You asked us to report on the status and results of IRS's efforts to better pursue potential tax noncompliance by high-income individuals, such as by reviewing IRS audits. Additionally, the IRA includes a provision for us to review the distribution and use of funds appropriated by the act, among other things.⁵ This report is part of a body of work in response to this provision.⁶

This report (1) describes the results of high-income/high-wealth (HI/HW) audits; (2) describes the status, plans, and results of IRS's recent initiatives to audit HI/HW individual taxpayers; (3) describes HI/HW audit challenges cited by IRS staff; and (4) assesses IRS's efforts to audit HI/HW individuals.⁷

To describe the results of HI/HW audits, we reviewed documentation and interviewed IRS officials to understand audit-related databases and variables. We analyzed audit and collections data to compare audit results across four income categories and identify trends. We generally focused on data from fiscal years 2012 through 2022 (which was the most recent year with complete data). To determine the reliability of these data, we reviewed documentation and interviewed IRS officials. We noted any data limitations—as applicable—within the report. We determined that the

³Pub. L. No. 117-169, § 10301(1)(A)(ii), 136 Stat. 1818, 1831 (2022). This \$45.6 billion is part of a total of \$79.4 billion in appropriations for IRS to modernize taxpayer services and enforce tax laws.

⁴Pub. L. No. 118-5, § 251, 137 Stat. 10, 30 (2023).

⁵Pub. L. No. 117-169, § 70004, 136 Stat. at 2087.

⁶Other reports in this body of work include GAO, *Tax Enforcement: IRS Audit Processes Can Be Strengthened to Address a Growing Number of Large, Complex Partnerships*, [GAO-23-106020](#) (Washington, D.C.: July 27, 2023).

⁷IRS does not have a specific income threshold defining HI/HW. For purposes of this report, HI/HW refers to two different thresholds. Our analysis of audit results refers to HI/HW as individuals reporting \$500,000 or more in total positive income (covering four income categories) to align with the IRS Data Book income category closest to Treasury's \$400,000 threshold for enhancing enforcement activities. To analyze the audit results of IRS's recent initiatives to audit HI/HW individuals, we focused on taxpayers reporting \$10 million or more in total positive income since the initiatives focused on those taxpayers. We focused on audits of individual taxpayer returns (Form 1040 and 1040-related) and not audits of returns filed by corporations or other types of entities.

data presented in this report are sufficiently reliable for the purposes of our objectives.

To describe the status, plans, and results of IRS's two recent HI/HW audit initiatives, we reviewed documentation and interviewed IRS officials about the planning and implementation of these initiatives. Because these initiatives started in 2020, our data analyses of audit results focus on audits that closed in fiscal years 2021 and 2022.

To describe HI/HW audit challenges cited by IRS staff, we reviewed documentation, interviewed IRS officials, and conducted 10 discussion groups with IRS staff who manage or conduct HI/HW audits. These discussion groups gathered in-depth information about participants' views on specific topics related to challenges and IRS's efforts to address them. The findings from these discussion groups are nongeneralizable.

To assess IRS's efforts to audit HI/HW individuals, we identified relevant criteria, such as federal internal control standards, and assessed IRS's HI/HW audit efforts against these criteria. We also compared IRS efforts to the objectives and initiatives in its Strategic Operating Plan (SOP) that are related to HI/HW auditing.⁸

For additional information on our objectives, scope, and methodology, see appendix I.

We conducted this performance audit from June 2022 to January 2024 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

IRS estimated that the average gross tax gap was \$496 billion per year for tax years 2014 to 2016. According to Treasury, the distribution of the tax gap across the income spectrum is difficult to estimate, especially at very top incomes. However, academic researchers have estimated that

⁸Internal Revenue Service, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan: FY2023-2031* (Washington, D.C.: Apr. 5, 2023).

more than \$160 billion is lost annually from unpaid taxes of taxpayers in the top 1 percent by income.⁹

As we have previously reported, reducing the tax gap will require multiple strategies, such as increasing the number of IRS audits and improving taxpayer services. However, IRS has faced decreased budget and staffing levels over the past decade, as well as increasing responsibilities, such as administering stimulus payments during the COVID-19 pandemic.¹⁰

As part of the IRA, Congress provided IRS with \$79.4 billion over 10 years—before rescissions—to modernize taxpayer services and enforce tax laws, among other items. In April 2023, IRS issued its SOP outlining how it intends to use the additional funding received through the IRA. The plan provides IRS’s high-level vision of improving HI/HW taxpayer compliance. This vision included strategic objectives and initiatives on increasing enforcement (such as through audits), using data to drive decision-making, and understanding the complexity of HI/HW compliance issues.

IRS audits individual tax returns using three approaches: (1) by mail (correspondence audits); (2) in person at IRS offices (office audits); or (3) in person at the taxpayer’s home or business, or at a tax practitioner’s office (field audits). According to IRS, the complexity of the return and its tax issues determines which type of audit is used.¹¹ Figure 1 illustrates IRS’s general process for selecting individual returns for in-person (office or field) audits.¹²

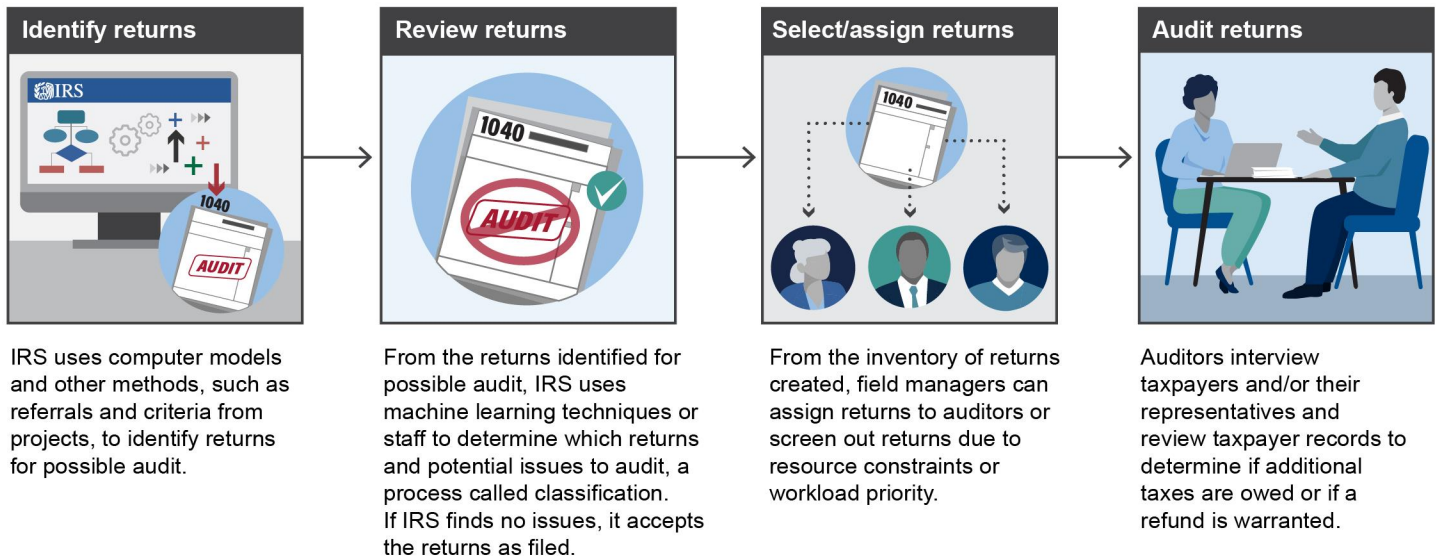
⁹DeBacker, Jason et al., 2020. “Tax Noncompliance and Measures of Income Inequality,” *Tax Notes Federal*, 17 February.

¹⁰GAO, *Tax Gap: Modest Reductions in the Gap Could Yield Large Fiscal Benefits*, [GAO-23-106448](#) (Washington, D.C.: Feb. 27, 2023).

¹¹For audits closed in fiscal year 2022, the majority of audits with total positive income below \$1 million were correspondence audits, and the majority of audits with total positive income of \$1 million or more were field audits. See table 18 in the 2022 IRS Data Book for additional data.

¹²This report focuses on in-person (office or field) audits. For more information about correspondence audits, see GAO, *IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden*, [GAO-14-479](#) (Washington, D.C.: June 5, 2014).

Figure 1: IRS’s General Process for Selecting Returns for in-Person Audits



Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106112

Accessible Text for Figure 1: IRS’s General Process for Selecting Returns for in-Person Audits

- **Identify returns.** IRS uses computer models and other methods, such as referrals and criteria from projects, to identify returns for possible audit.
- **Review returns.** From the returns identified for possible audit, IRS uses machine learning techniques or staff to determine which returns and potential issues to audit, a process called classification. If IRS finds no issues, it accepts the returns as filed.
- **Select/assign returns.** From the inventory of returns created, field managers can assign returns to auditors or screen out returns due to resource constraints or workload priority.
- **Audit returns.** Auditors interview taxpayers and/or their representatives and review taxpayer records to determine if additional taxes are owed or if a refund is warranted.

Source: GAO analysis of Internal Revenue Service information. GAO illustrations. | GAO-24-106112

IRS generally concludes audits in one of three ways:

- If the taxpayer substantiates all items under review, IRS informs the taxpayer that no additional taxes are due or issues a refund.
- If the taxpayer agrees with the additional taxes the IRS auditor recommends are owed or does not respond to IRS, IRS closes the audit, assesses this amount as taxes owed, and begins collecting any taxes or withholds the refund.
- If the taxpayer disagrees with IRS’s recommended tax changes, the taxpayer can attempt to resolve the dispute through (1) meeting with

an IRS manager, (2) using IRS's administrative appeals process, (3) using an IRS mediator in lieu of the agency appeals process, or (4) going to court.¹³ These processes can result in the taxpayer owing the additional taxes IRS initially recommended or a different amount.

Audits of the Highest Income Tax Returns Generally Resulted in the Most Taxes Recommended

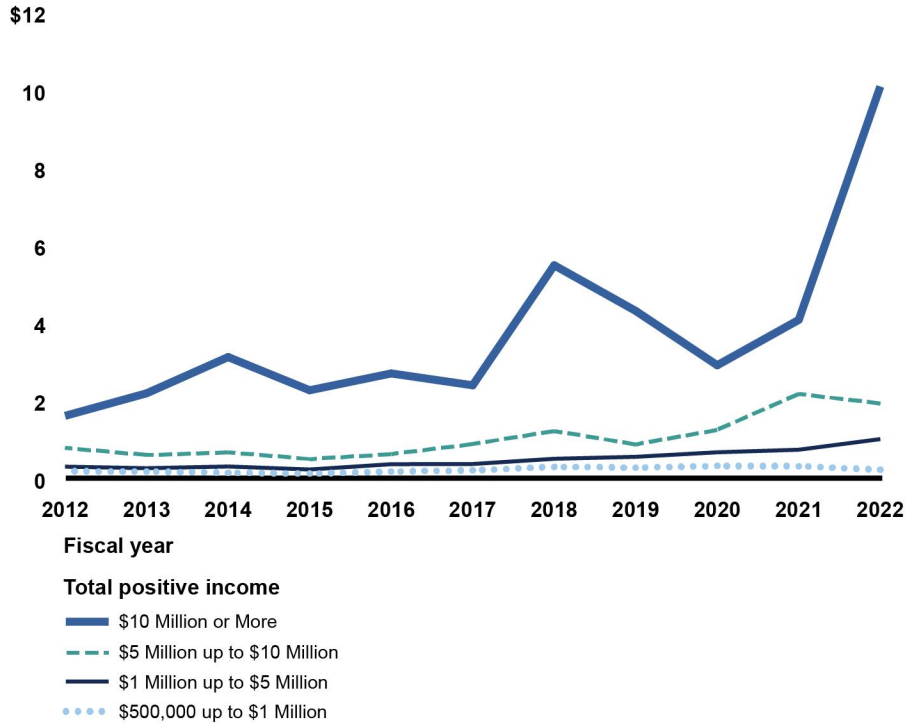
Based on our analysis of audits closed in fiscal years 2012 to 2022, including those in IRS's two initiatives, the highest income audits (\$10 million or more TPI) resulted in IRS recommending more tax per audit, on average, compared to other HI/HW audits (TPI of \$500,000 up to \$10 million) closed in fiscal years 2012 to 2022 (see fig. 2).¹⁴

¹³Our prior reports on IRS's alternative dispute resolution and appeals processes include GAO, *Tax Enforcement: IRS Could Better Manage Alternative Dispute Resolution Programs to Maximize Benefits [Reissued with revisions on Jun. 7, 2023]*, [GAO-23-105552](#) (Washington, D.C.: May 31, 2023); and *Tax Administration: Opportunities Exist to Improve Monitoring and Transparency of Appeal Resolution Timeliness*, [GAO-18-659](#) (Washington, D.C.: Sept. 21, 2018).

¹⁴Similarly, these highest income audits generally resulted in at least double the recommended additional tax per audit hour compared to audits in other HI/HW income categories. Additional data and analyses on audit results, including recommended additional tax per audit hour, can be found in appendix II.

Figure 2: Recommended Additional Taxes per Audit for Individuals Reporting Total Positive Income of \$500,000 or More, Fiscal Years 2012 to 2022 (as of June 2023)

Dollars (in hundreds of thousands)



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Figure 2: Recommended Additional Taxes per Audit for Individuals Reporting Total Positive Income of \$500,000 or More, Fiscal Years 2012 to 2022 (as of June 2023)

Dollars (in Hundreds of Thousands)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 up to \$1 Million	\$18,449	\$17,088	\$14,407	\$11,912	\$17,274	\$20,176	\$29,455	\$27,336	\$31,587	\$31,110	\$21,813
\$1 Million up to \$5 Million	\$29,836	\$25,884	\$30,297	\$22,548	\$36,181	\$36,685	\$50,160	\$55,242	\$66,868	\$73,475	\$100,815
\$5 Million up to \$10 Million	\$77,953	\$59,758	\$66,717	\$49,483	\$62,082	\$88,088	\$121,955	\$87,173	\$124,707	\$217,389	\$192,618
\$10 Million or More	\$160,814	\$218,898	\$312,212	\$226,689	\$270,035	\$239,518	\$548,714	\$431,113	\$291,126	\$408,068	\$1,009,222

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

IRS attributed the increase in fiscal year 2022, in part, to extremely high amounts of recommended additional tax from a few of the highest income audits. Officials attributed the decrease in fiscal year 2020 to COVID-19 pausing audit activity which resulted in fewer audit closures. Fewer audit closures also reduced any related recommended tax amounts.¹⁵

For HI/HW audits closed in fiscal years 2012 to 2022, the no-change rate, or percent of audits with no changes to taxes owed, was, on average, 45 percent. The rate ranged from 31 percent to 56 percent over these years.¹⁶

Additionally, we found that the highest income audits generally required the most hours per audit. For audits closed in fiscal years 2012 to 2022, the highest income audits averaged about 44 hours per audit compared to about 22 hours per audit for other HI/HW audits. According to IRS officials, audits of the highest income returns require many more audit hours because they are generally more complex.¹⁷

For all HI/HW audits closed in fiscal years 2012 to 2022, IRS collected an average of 48 percent of recommended additional taxes, as of June 2023.¹⁸ However, taxpayers did not always agree with the recommended additional taxes. For those audits where the taxpayer resolved disputes on any unagreed amounts or agreed with recommended amounts, IRS collected an average of 56 percent of recommended additional taxes (\$11.9 billion collected out of \$21.3 billion recommended). See figure 3.

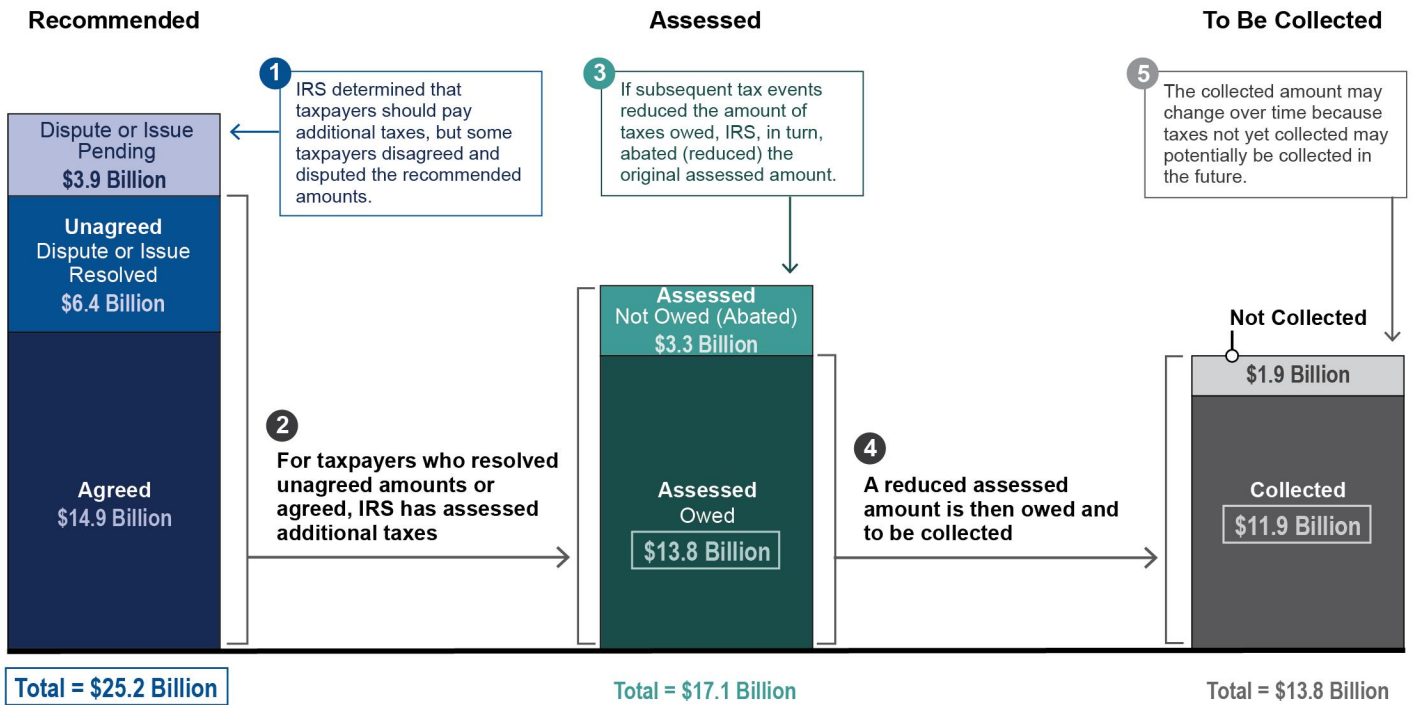
¹⁵IRS also generally closed fewer audits as income increased. Additional information can be found in appendix II.

¹⁶In appendix I, we discuss how our methodology for calculating no-change rate differs from IRS's methodology. We included all audits with no changes to taxes, regardless of whether other line items were adjusted. IRS officials said that they only include audits with no changes to taxes or other line adjustments in their calculation, which can result in a lower no-change rate than what we calculated.

¹⁷Additional data and analyses on these HI/HW audit results, the no-change rates, and audit hours can be found in appendix II. For additional information on similar analyses for audits of all individual taxpayers, see GAO, *Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income*, [GAO-22-104960](#) (Washington, D.C.: May 17, 2022).

¹⁸For HI/HW audits closed in fiscal years 2012 through 2022, the collection rates of recommended additional taxes ranged from 19 to 65 percent. Additional data and analyses on audit results, including recommended and collected amounts, can be found in appendix II.

Figure 3: Various Factors Result in IRS Collecting Less Taxes than Initially Recommended from High-Income/High-Wealth Audits (as of June 2023)



Source: GAO analysis of Internal Revenue Service data on audits closed in fiscal years 2012 to 2022. | GAO-24-106112

Accessible Data for Figure 3: Various Factors Result in IRS Collecting Less Taxes than Initially Recommended from High-Income/High-Wealth Audits (as of June 2023)

Recommended Category	Recommended Dollars	Assessed Category	Assessed Dollars	To Be Collected Category	To Be Collected Dollars
Agreed	\$14,941,984,407	Assessed Owed	\$13,824,327,933	Collected	\$11,928,941,579
Unagreed Dispute or Issue Resolved	\$6,427,905,533	Assessed Not owed (Abated)	\$3,311,793,556	Not Collected	\$1,895,386,354
Dispute or Issue Pending	\$3,875,988,064				
Total=	\$25,245,878,005	Total=	\$17,136,121,489	Total=	\$13,824,327,933

1. IRS determined that taxpayers should pay additional taxes, but some taxpayers disagreed and disputed the recommended amounts.
2. For taxpayers who resolved unagreed amounts or agreed, IRS has assessed additional taxes
3. If subsequent tax events reduced the amount of taxes owed, IRS, in turn, abated (reduced) the original assessed amount.

4. A reduced assessed amount is then owed and to be collected
5. The collected amount may change over time, because taxes not yet collected may potentially be collected in the future.

Source: GAO analysis of Internal Revenue Service data on audits closed in fiscal years 2012 to 2022. | GAO-24-106112

IRS does not collect all of the recommended additional taxes from HI/HW audits due to various factors, including the following:

- **Taxpayer disputes recommended additional taxes.** Taxpayers who prevail in their dispute with IRS can decrease the taxes that IRS initially recommended in the audit and that are assessed.¹⁹ For HI/HW audits closed in fiscal years 2012 to 2022, taxpayers disputed about 40 percent (\$10.3 billion out of \$25.2 billion) of recommended additional taxes.²⁰ As of June 2023, \$3.9 billion of the \$25.2 billion are still being disputed.
- **Assessed taxes are reduced.** As of June 2023, IRS has assessed 68 percent (\$17.1 billion of \$25.2 billion) of all the taxes recommended from audits. For taxpayers who resolved their disputes or who agreed with IRS's recommended additional taxes, IRS assessed about 80 percent (\$17.1 billion out of \$21.3 billion) of that portion of the recommended tax amounts. Some of the \$17.1 billion of taxes initially assessed were reduced, or abated, by subsequent tax events.²¹ For fiscal years 2012 to 2022, IRS reduced about 19 percent of initially assessed taxes (\$3.3 billion out of \$17.1 billion initially assessed) on closed HI/HW audits, resulting in final assessed taxes of \$13.8 billion, which is 55 percent of the total amount of recommended taxes.
- **Assessed taxes are not yet collected.** As of June 2023, IRS collected 86 percent of the final assessed taxes (\$11.9 billion out of \$13.8 billion final assessed) for HI/HW audits closed in fiscal years 2012 to 2022. Taxes collected include amounts voluntarily paid, as

¹⁹In general, IRS does not take action to collect additional taxes owed until they are assessed. An assessment is the statutorily required recording of a taxpayer's tax liability. 26 U.S.C. § 6203.

²⁰Disputed amounts occurred in 6 percent of HI/HW audits closed in fiscal years 2012 to 2022. As of June 2023, about 1 percent of HI/HW audits closed in the same years did not have a final assessment amount. IRS officials said that resolving HI/HW audit disputes can take an extended period of time, potentially years. For the past 3 fiscal years, returns with TPI between \$1 million and \$5 million had the highest percent of audits with disputed recommended tax. See appendix II for additional data.

²¹An example of a reason for tax abatement is a loss carryback. A loss carryback allows taxpayers who suffered a loss in one year to deduct the loss from previous years' profits, which can result in a refund of taxes previously paid by reducing the tax liability for that previous year. 26 U.S.C. § 172.

well as those resulting from IRS's actions, such as issuing a notice of levy on salary or property, to collect taxes from taxpayers who do not voluntarily pay. When asked about the reasons for uncollected amounts, IRS officials said they could not provide potential reasons or additional information on IRS collection activities unless they were commenting on specific audits.

Results of IRS's Two Audit Initiatives Are Preliminary

IRS Plans to Meet Treasury's High-Income Audit Goal

In 2020, Treasury directed IRS to audit at least 8 percent of returns filed each year by individuals with \$10 million or more in adjusted gross income.²² To increase the number of audits to meet the directive, IRS established two initiatives: the High Income Individual initiative (HII) and the Over \$10 Million TPI Compliance Initiative Project (CIP). The CIP was a short-term initiative to audit high-income returns for 3 tax years. These initiatives supplemented audits conducted under the Global High Wealth (GHW) program. GHW was IRS's only program before 2020 focused on identifying high-income individual returns to audit based in part on income.²³ In addition, IRS identifies high-income returns for audit through other sources based on tax issues that appear to be noncompliant.²⁴

At the time of this review, IRS had enough audits (open or closed) to meet the 8 percent audit rate goal for tax years 2018 to 2020, as shown in table 1. As of July 2023, many of these audits are not yet closed, particularly for tax year 2020. According to IRS officials, it can take several years for IRS to audit complex returns of individuals with TPIs of \$10 million or more.

²²Our analysis is based on total positive income rather than adjusted gross income because IRS typically reports on audit rates and results using taxpayers' total positive income.

²³IRS's GHW program audits individuals with tens of millions in TPI and assets. We are not reporting a specific dollar threshold for these audits because doing so could impair IRS's efforts to enforce the tax laws.

²⁴Other sources that include audits of high-income individuals include, but are not limited to, related pick-ups, referrals, whistleblower cases, and individuals with foreign income (Withholding and Exchange International Individual Compliance practice area).

Table 1: Number of Audits with \$10 Million or More Total Positive Income (TPI) Meets Audit Rate Goal, but Many Audits Are Open (as of July 2023)

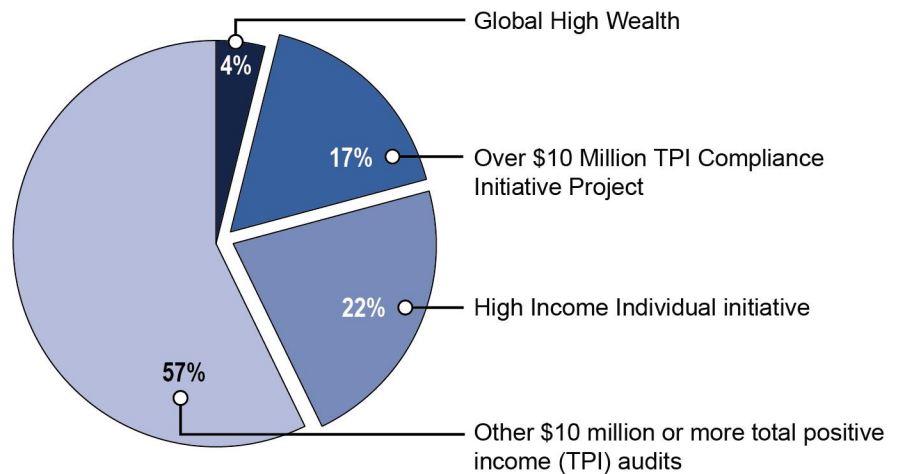
	Tax year 2018	Tax year 2018	Tax year 2018	Tax year 2019	Tax year 2019	Tax year 2019	Tax year 2020	Tax year 2020	Tax year 2020
	Open	Closed	Total	Open	Closed	Total	Open	Closed	Total
Initiatives: High Income Individual	122	607	729	178	252	430	594	101	695
Initiatives: Compliance Initiative Project	16	508	524	<10	119	119	551	206	757
Existing programs: Global High Wealth	42	51	93	58	65	123	87	12	99
Existing programs: Other \$10 million or more TPI audits	507	948	1,455	627	1,478	2,105	905	329	1,234
Total number of audits	687	2,114	2,801	863	1,914	2,777	2,137	648	2,785
Audit rate of \$10 million or more TPI returns	3%	8%	11%	4%	8%	11%	7%	2%	9%

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Note: We report audit rate by tax year rather than fiscal year to align with how IRS reports audit rate information in its Data Book. The number of returns filed, which is used to calculate audit rate, can be found in IRS's 2022 Data Book and appendix III.

For tax years 2018 to 2020 combined, 39 percent of the highest income audits (\$10 million or more TPI) were audited through HII and CIP, as shown in figure 4.

Figure 4: IRS Conducted about 40 Percent of Audits with \$10 Million or More Total Positive Income through High-Income Audit Initiatives, Closed and Open Audits, Tax Years 2018 to 2020 Combined (as of July 2023)



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Figure 4: IRS Conducted about 40 Percent of Audits with \$10 Million or More Total Positive Income through High-Income Audit Initiatives, Closed and Open Audits, Tax Years 2018 to 2020 Combined (as of July 2023)

Initiatives	Percent
High Income Individual	22%
Over \$10 Million TPI Compliance Initiative Project	17%
Global High Wealth	4%
Other \$10 million or more total positive income (TPI) audits	57%

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

IRS officials said the proportion of audits conducted through HII may change in future years based on the number of audits needed to meet the 8 percent audit goal. For CIP, officials reported that they have completed the initiative but will continue to audit returns to help meet the 8 percent audit goal. We provide additional information about IRS’s plans for evaluating its high-income audit initiatives later in the report.

Preliminary Data Indicate IRS’s Initiatives Resulted in Audits That Took More Time and Recommended Less Tax per Audit Compared to Other Audits of Similar Income

We discuss HII and CIP audit results below, but they are considered preliminary because they reflect audits IRS closed in the past 2 fiscal years, which is less than half of all tax year 2018 to 2020 HII and CIP returns that have been selected for audit, as of June 2023. Over time, HII and CIP audit results may differ from those in the first 2 years. According to IRS officials, audit staff will continue to gain experience with these types of audits and results will not be limited to the more straightforward audits IRS could close relatively quickly, usually with no changes to the taxes owed.²⁵ Further, in some cases, IRS will continue to assess and collect taxes owed years after the audit closed. These assessments and collections may not yet be fully reflected in IRS’s data and audit results as of June 2023.

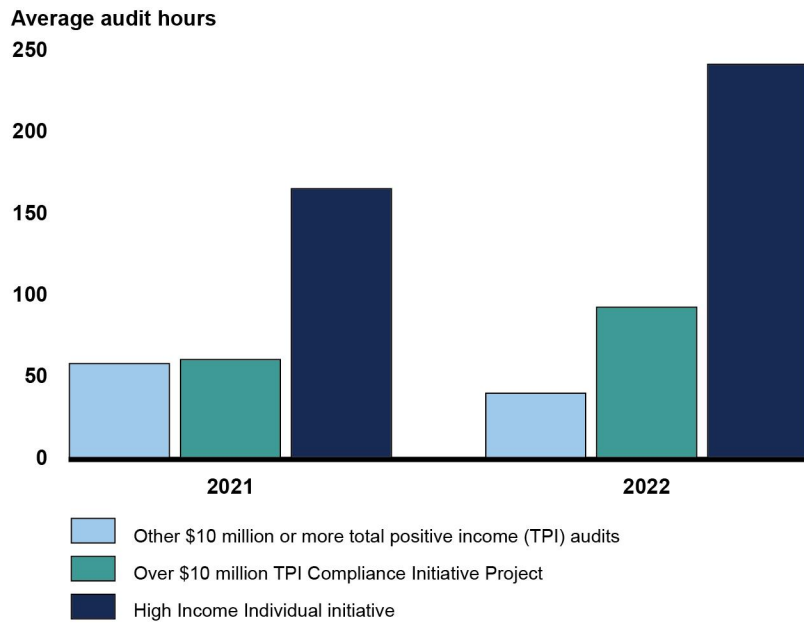
Audit Hours

For audits closed in fiscal years 2021 and 2022, on average, HII and CIP audits took longer in audit hours compared to other audits with \$10 million

²⁵IRS officials said that auditors typically close simpler cases in the initial years of new audit workstreams. These simpler audits usually result in the taxpayer agreeing with the audit results.

or more TPI that were not in these initiatives, as shown in figure 5.²⁶ Notably, HII audits took two to three times longer per audit in fiscal years 2021 and 2022 compared to other audits with \$10 million or more TPI that were not in the new initiatives.

Figure 5: High-Income Audits through Initiatives Took Longer than Other Audits with Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Figure 5: High-Income Audits through Initiatives Took Longer than Other Audits with Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)

Initiatives	Average audit hours	Average audit hours
	2021	2022
Other \$10 million or more total positive income (TPI) audits	58.12	40.0
Over \$10 million TPI Compliance Initiative Project	60.65	92.68
High Income Individual initiative	165.33	241.47

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

²⁶We excluded GHW audits from our analysis of other audits with TPI of \$10 million or more because the TPI associated with these audits may not be comparable to those in HII and CIP audits.

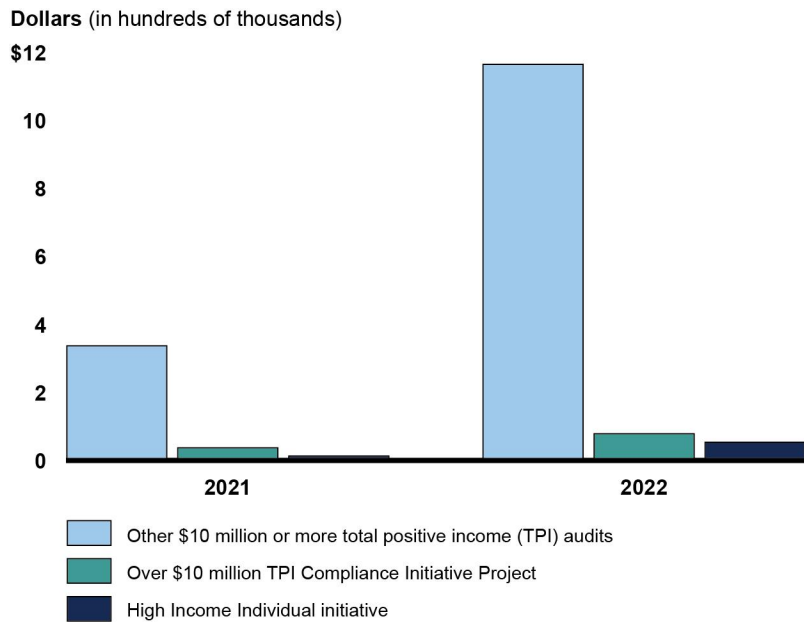
Note: The category Other \$10 million or more audits excludes Global High Wealth audits because the TPI associated with these audits may not be comparable to the TPI of audits conducted through the initiatives.

IRS officials said that the increased audit hours for these two initiatives could be due to auditors lacking experience with high-income returns, thereby creating delays. In addition, they said that the pandemic particularly affected the HII and CIP initiatives because the start of the initiatives coincided with the start of the pandemic.

Recommended Additional Tax

In the first 2 years of audit results, HII and CIP auditors recommended additional taxes that, on average, were less than 10 percent of the additional taxes that auditors recommended on other audits with similar income, as shown in figure 6.

Figure 6: High-Income Audits through Initiatives Had Much Lower Recommended Additional Tax per Audit Compared to Other Audits of Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Figure 6: High-Income Audits through Initiatives Had Much Lower Recommended Additional Tax per Audit Compared to Other Audits of Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)

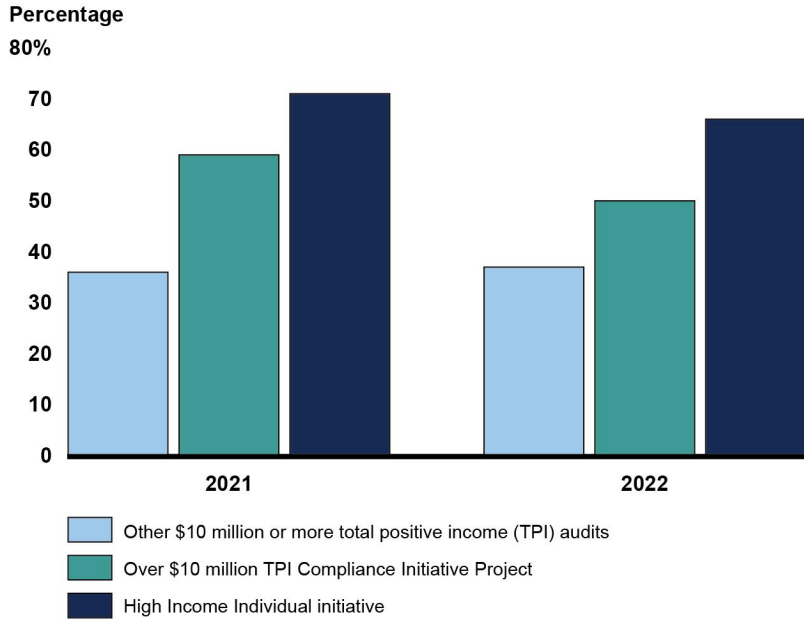
Initiatives	2021	2022
	Dollars (in hundreds of thousands)	Dollars (in hundreds of thousands)
Other \$10 million or more total positive income (TPI) audits	\$334,277	\$1,162,159
Over \$10 Million TPI Compliance Initiative Project	\$34,504	\$75,612
High Income Individual initiative	\$10,273	\$50,651

Note: The category Other \$10 million or more audits excludes Global High Wealth audits because the TPI associated with these audits may not be comparable to the TPI of audits conducted through the initiatives.

For CIP, officials said that audits closed in the early stages of a new initiative are typically less complex, often resulting in lower amounts of recommended additional tax. For HII, officials attributed the lower amounts of recommended additional tax to inexperienced staff.

As shown in figure 7, for audits closed in fiscal years 2021 and 2022, both HII and CIP audits had higher no-change rates, on average, compared to other audits with \$10 million or more TPI that were not in these initiatives.

Figure 7: Initiatives Had Higher Percent of Audits with No Change to Taxes Owed Compared to Other Audits of Returns with Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)



Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Accessible Data for Figure 7: Initiatives Had Higher Percent of Audits with No Change to Taxes Owed Compared to Other Audits of Returns with Similar Income, Fiscal Years 2021 and 2022 (as of June 2023)

Initiatives	2021	2022
	Percent	Percent
Other \$10 million or more total positive income (TPI) audits	36%	37%
Over \$10 Million TPI Compliance Initiative Project	59%	50%
High Income Individual initiative	71%	66%

Note: The category Other \$10 million or more audits excludes Global High Wealth audits because the TPI associated with these audits may not be comparable to the TPI of audits conducted through the initiatives.

Officials said the relatively high no-change rate for both HII and CIP is typical of new workstreams, where auditors close no-change audits

sooner than audits with recommended additional tax. Officials also said that they have been analyzing the no-change rate for both initiatives.²⁷

IRS Audit Staff Highlighted Challenges in Identifying High-Income/High-Wealth Tax Noncompliance

Audit staff (auditors and managers) in all 10 of our discussion groups stated that auditing high-income/high-wealth (HI/HW) returns was challenging because these returns can include many related entities and complicated income flows, making it difficult to identify noncompliance.²⁸ According to one auditor:

“[T]he characteristic of [HI/HW] exams, is massive tax returns with a considerable number of related entities, tiered entities, disregarded entities, all kinds and every complex maneuver that you can conceive of.”

Participants in at least half of the groups also described other challenges that complicate identifying noncompliance.²⁹

- **Balancing the number of audits with the scope and depth of audits (10 out of 10 groups).** Auditors work on multiple audits at the same time. According to participants, heavy workloads, limited time,

²⁷In appendix II, we have included additional results on assessed and collected amounts, as of June 2023, for HII and CIP audits. As previously discussed, IRS officials said that it can take several years to close more complex high-income audits and additional years to assess and collect any recommended additional taxes, particularly if taxpayers challenge the recommended amounts. Therefore, these results may change over time.

²⁸Related entities, such as trusts, partnerships, S corporations, and limited liability companies, are entities the taxpayer controls or that otherwise affect the taxpayer's tax liability.

²⁹We held 10 discussion groups—six with auditors and four with audit managers. In this report, we use phrases such as “participants said” or “according to participants” to indicate that one or more participants in at least half of the identified discussion groups made similar statements. We use phrases such as “some participants said” to indicate that at least two participants made similar statements regardless of the number of groups in which the statements were made. In other cases, we reference comments from participants in auditors’ or managers’ groups. For more information on our methodology, see appendix I. For more information on how participants described challenges, including which challenges they chose as the highest priorities for IRS to address and actions IRS has taken to address them, see appendix IV.

and the complexity of HI/HW returns sometimes lead them to close audits without fully examining all indicators of potential noncompliance. In addition, some participants said that classifiers did not always identify the most productive issues to audit.³⁰ As a result, auditors need to spend more time identifying issues with the highest potential for noncompliance before they contact taxpayers to ask for information.

- **Finding noncompliance across many related entities (10 out of 10 groups).** According to IRS procedures, as part of auditing the primary return, an auditor should determine whether to audit returns of related entities.³¹ Auditors said they need to audit related entities to track the flow of income and expenses from the taxpayer's return to these entities. However, according to group participants, HI/HW returns can be associated with dozens or hundreds of related entities. Therefore, according to participants, opening audits of many related entities is not always efficient or feasible because following the procedures to audit any one entity can take significant time, and auditors have limited time to complete an audit.³²
- **Insufficient or untimely training for HI/HW auditing (eight out of 10 groups).** Newly hired auditors follow a program of classroom training classes and of on-the-job training audits with an experienced auditor. According to IRS officials, this program typically takes 2 years. This training is generally followed by specific issue-based training.³³ However, auditors shared the view that training was not always sufficient to develop the knowledge and expertise needed to conduct HI/HW audits. In addition, according to some managers, auditors need more training to review complex balance sheets or understand technical tax issues such as trusts.³⁴ Participants also

³⁰Classification is the process of determining whether a return should be selected for audit and the initial issues to be audited. Auditors also must analyze the return to determine whether it warrants examination.

³¹Auditors must also evaluate the audit potential of the taxpayer's returns from prior and subsequent years. They may also identify other returns that warrant further review, such as returns from employees or employers of the taxpayer.

³²By statute, IRS generally has 3 years after a return is due or was filed, whichever is later, to audit returns for additional tax assessments. 26 U.S.C. § 6501.

³³Issue-based training include topics such as private foundations and aircraft issues.

³⁴Balance sheets are financial statements that list the assets, debts, and owners' investment as of a specified date. A trust is a type of entity that holds property or income for the benefit of others. Trusts can have various purposes, such as estate planning, charitable giving, and holding of assets for beneficiaries.

noted that too much time elapsed between receiving issue-specific training and needing to use the knowledge in HI/HW audits.

- **Limited access to specialists (eight out of 10 groups).** When conducting an HI/HW audit, auditors may rely on different IRS specialists to advise them on legal or technical issues. However, discussion group participants said they were not always able to obtain help from specialists when needed.
- **Limits with technology to communicate with taxpayers (seven out of 10 groups).** Participants said that using technology to communicate with taxpayers is essential to their work. However, participants also said that IRS's technology, such as for receiving documents from taxpayers, can be tedious to use and unreliable, thus hindering them from conducting the audit.
- **Delays caused by taxpayers or their representatives (five out of 10 groups).** Although not all delays are intentional, participants said they found it challenging when HI/HW taxpayers or their representatives seemed to intentionally delay or obstruct the audit. For example, they said that taxpayers or their representatives might take the maximum amount of time to provide the minimum amount of information to the auditor.

According to the group participants, these challenges did not occur in all of their HI/HW audits. In addition, participants described helpful actions that IRS has taken to mitigate challenges. For example, participants said that recent IRS technology improvements, such as with video conferencing and secure email, have improved auditors' ability to communicate with taxpayers. Participants also noted that opportunities to quickly consult with certain specialists on complex tax issues have been helpful.

IRS Has Not Finalized Plans to Improve HI/HW Auditing

The IRS Strategic Operating Plan for fiscal years 2023 to 2031 identifies a vision for better enforcing tax laws for taxpayers with complex returns and improving the compliance of HI/HW taxpayers.³⁵ IRS has been

³⁵Internal Revenue Service, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan: FY2023-2031* (Washington, D.C.: Apr. 5, 2023). IRS's plan states that related HI/HW entities and business structures can be complex and multitiered, and that returns can be thousands of pages long, requiring hundreds of staff hours to effectively review.

developing plans to improve its auditing of HI/HW returns. However, for certain aspects of HI/HW auditing, we found that IRS's plans are unclear and not yet finalized.

Assessing Sufficiency of Research Data

In our prior work on evidence-based policy making, we reported that, as a key practice, agencies should assess whether existing evidence, such as research data, has sufficient coverage and quality to ensure that it is useful to decision-makers.³⁶ If improvements to the data are needed, agencies should take steps to identify and prioritize evidence needs and generate new evidence. IRS has taken some steps to improve the coverage of its research data on HI/HW tax returns.³⁷ However, IRS could not demonstrate that it had assessed whether the coverage and quality of these research data are sufficient to improve its understanding of the complexity and compliance on HI/HW returns.³⁸

IRS's Strategic Operating Plan

Among other things, IRS will use data and analytics to improve its understanding of

- complex HI/HW returns (Objective 3, Initiative 3.4); and
- taxpayer compliance (Objective 4, Initiative 4.7).

Source: Internal Revenue Service. | GAO-24-106112

IRS has not assessed whether its research data have sufficient coverage to better understand the complexity of HI/HW returns. For example, IRS did not have research data on how and the extent to which various factors contributed to complexity. We identified these factors by reviewing IRS's Internal Revenue Manual (IRM) and interviewing IRS officials; these

³⁶Evidence can include performance information, program evaluations, statistical data, and other research and analysis. Evidence assessment requires determining whether that evidence has sufficient coverage and quality. Coverage involves having evidence that covers all aspects of the key questions and relevant goals. Quality involves whether the evidence is accurate, complete, consistent, credible, rigorous, and timely. Quality evidence affects the conclusions that can be drawn and its usefulness to decision-makers. See GAO, *Evidence-Based Policymaking: Practices to Help Manage and Assess the Results of Federal Efforts*, [GAO-23-105460](#) (Washington, D.C.: July 12, 2023).

³⁷Research data are data IRS collects to understand the tax returns and compliance of various taxpayer populations. Research data differ from audit results data, which we analyzed and summarized earlier in the report.

³⁸According to IRS officials, as of December 2023, IRS is in the process of assessing its research data but has not finalized its assessments.

factors included issues such as financial products or the sale of a partnership.³⁹

IRS has taken steps that may improve coverage of data on HI/HW compliance. To measure the types and prevalence of tax noncompliance on individual taxpayer returns, IRS conducts random audits through the National Research Program.⁴⁰ IRS has expanded coverage of these research data by measuring compliance for three different high-income levels of \$1 million or more rather than at one combined income level of \$1 million or more.⁴¹ In doing these research audits, IRS is also auditing a larger proportion of returns at the different high-income levels, relative to the total number of these research audits. Because IRS will be conducting these audits through at least late 2024, it has not been able to assess whether this expanded coverage will help it better understand HI/HW taxpayer compliance.

In addition, IRS has not assessed whether its research data have sufficient quality to understand HI/HW complexity and compliance. A National Bureau of Economic Research study coauthored by IRS staff found that National Research Program audits largely did not detect tax evasion for undeclared foreign bank accounts and substantially underdetected tax evasion for pass-through businesses, such as partnerships.⁴² According to the study, a more specialized approach is needed to detect these types of noncompliance on HI/HW returns. IRS could not demonstrate that it had assessed its research data to determine how to address these data quality limitations for such tasks as estimating the tax gap.

According to IRS officials, resource constraints and other priorities have limited IRS's ability to assess its research data. At the same time, the number of HI/HW taxpayers and sophistication of their tax evasion

³⁹The IRM contains IRS procedures and guidelines. For a list of these factors, see IRM 1.4.40.4.6.6.2.4.

⁴⁰Types of noncompliance include (1) underreporting of tax liabilities on timely filed tax returns; (2) underpayment of taxes due from timely filed returns; and (3) nonfiling, when a taxpayer fails to file a required tax return on time or altogether.

⁴¹IRS is measuring compliance for three new HI/HW categories—\$1 million to \$5 million, \$5 million to \$10 million, and \$10 million and above—starting with tax year 2019 returns. IRS officials said that these audits would not be completed until late calendar year 2024 at the earliest.

⁴²Guyton, John, Patrick Langetieg, and Daniel Reck et al. 2021. "Tax Evasion at the Top of the Income Distribution: Theory and Evidence." National Bureau of Economic Research, *NBER Working Paper Series*, <http://www.nber.org/papers/w28542>.

strategies have grown, according to IRS, outpacing IRS's resources and ability to detect noncompliance on HI/HW returns.

Without fully assessing its research data to determine whether they have sufficient coverage and quality, IRS's ability to understand HI/HW complexity and compliance may be diminished, as well as using that understanding to better select and audit HI/HW returns.

Evaluating Selection Models

In our prior work on designing evaluations, we reported that, as a key practice, agencies should use relevant evaluation questions and an appropriate evaluation design to assess how well a program is working.⁴³ IRS uses various computer models to identify high-income returns to select for potential audit. These audits are to address apparent noncompliance, as well as meet IRS's 8 percent audit rate goal.⁴⁴ IRS staff then review the identified returns to determine whether to actually audit them and if so, what issues on these returns are to be considered for audit.⁴⁵ By using these models and reviews, IRS strives to select returns for audits that indicate the greatest potential for tax changes to correct noncompliance.⁴⁶ IRS officials said they are in varying stages of evaluating selection models but generally could not provide evaluation plans.

IRS's Strategic Operating Plan

Among other things, IRS will

- use centralized data analytics to select returns at risk of noncompliance (Objective 3, Initiative 3.1); and
- increase efforts to help ensure tax compliance on HI/HW returns (Objective 3, Initiative 3.4).

⁴³GAO, *Designing Evaluations: 2012 Revision (Supersedes PEMD-10.1.4)*, GAO-12-208G (Washington, D.C.: Jan. 31, 2012).

⁴⁴IRS also identifies returns to audit to meet its 8 percent audit rate goal through other sources besides these models.

⁴⁵According to IRS officials, auditors and their managers make the decision whether they will audit the issues identified.

⁴⁶IRS has taken some steps to reduce the percentage of HI/HW audits that result in no changes to the tax return, or no-change rate. Small Business/Self-Employed created a group to analyze the high no-change rate for tax year 2018 CIP audits. Large Business and International also analyzed the high no-change rate for tax year 2018 HII audits. However, the documentation of these analyses did not explain how IRS would use the findings to improve the Small Business/Self-Employed or Large Business and International models for selecting returns for audit.

Source: Internal Revenue Service. | GAO-24-106112

For the Small Business/Self-Employed division:

- Small Business/Self-Employed primarily uses the Discriminant Function model to help select HI/HW returns for audit.⁴⁷ This model currently relies on National Research Program compliance data from returns at one combined income level of \$1 million or more. As discussed earlier, IRS is updating the model with research data for three different high-income levels of \$1 million or more, including from returns with total positive income (TPI) of \$10 million or more. IRS officials said the earliest they could update the model with these additional income level data is 2026.⁴⁸ IRS officials could not provide documentation of its plans for evaluating the effectiveness of the updated model.⁴⁹
- To identify audit issues on individual taxpayer returns, including those with TPI of \$10 million or more, Small Business/Self-Employed is using a model called Issue Recommender. Officials said the model identifies up to three issues per return with the highest potential risk for noncompliance for auditors to examine. Officials said they plan to expand the model's capabilities. However, they did not share further details about how they would evaluate the model with these expanded capabilities.

For the Large Business and International division:

- Large Business and International uses a wealth model to identify potentially noncompliant returns with TPI over \$10 million for audit.⁵⁰

⁴⁷The Discriminant Function is a mathematical technique used to score income tax returns for audit potential.

⁴⁸Until National Research Program data for returns with TPI \$10 million or more are available, IRS officials said they are supplementing the model with data from as far back as tax year 2006.

⁴⁹Also, the Treasury Inspector General for Tax Administration (TIGTA) has reported that the Discriminant Index Function model is less effective at selecting HI/HW returns with underreported income compared to another selection process. Before fiscal year 2018, IRS had an HI/HW strategy that focused on individual taxpayers with incomes higher than \$200,000. TIGTA found that IRS selected more productive returns through the High-Income Underreported subcategory of this strategy than through the model. Treasury Inspector General for Tax Administration, *The IRS Continued Compliance Efforts for High-Income Taxpayers After Disbanding the High Income High Wealth Strategy, but With Less Effective Outcomes*, 2021-30-041 (Washington, D.C.: July 7, 2021).

⁵⁰The wealth model identifies risk across different types of returns to determine audit potential.

Large Business and International officials said they cannot be sure whether the wealth model identifies returns with the highest risk of noncompliance. Large Business and International officials have discussed evaluating the wealth model but did not share further details about how they would do so.

- IRS officials said they are developing a new risk-based model to help select returns with TPI over \$10 million to audit in Large Business and International and potentially in Small Business/Self-Employed. According to these officials, the model is intended to (1) sort returns into multiple groups based on factors such as the returns' income type, number and structure of assets, and related entities; and (2) help IRS determine the most appropriate method, or treatment, to address perceived noncompliance on these returns.⁵¹ Officials said they are in the early stages of testing and evaluating the model and could not yet share an evaluation plan.

According to IRS officials, they have not finished evaluating IRS's models to help select returns for audit and could not provide plans for doing so because IRS needed to quickly increase the number of audits to meet the 8 percent audit rate goal. Not following key practices for designing evaluations—using relevant questions and an appropriate evaluation design—hinders IRS's ability to assess whether it is selecting the highest risk returns for audit. As a result, IRS may be unnecessarily burdening compliant taxpayers and missing opportunities to address noncompliance.

Collecting and Using Internal Feedback

Under federal standards for internal control, agencies should internally communicate quality information to achieve objectives and receive quality information about operational processes from staff.⁵² IRS officials said that the agency may receive feedback from HI/HW auditors through managerial interactions and reviews. However, IRS has not established a mechanism to consistently collect and use feedback from these auditors to address auditing challenges or otherwise improve HI/HW audits.

⁵¹According to officials, these methods range from sending taxpayers educational notices to investing more resources to audit the return through an intensive enterprise approach, which entails examining a taxpayer's tax return and the tax returns of relevant related entities together as one audit.

⁵²GAO, *Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

IRS's Strategic Operating Plan

Among other things, IRS will

- develop pathways for gathering feedback within IRS to identify trends and risks (Objective 3, Initiative 3.6); and
- act on employees' feedback as part of building a culture of continuous improvement (Objective 5, Initiative 5.8).

Source: Internal Revenue Service. | GAO-24-106112

IRS officials described various ways through which managers could receive feedback: in person while visiting IRS field sites, through managerial reviews and performance evaluations, and when auditors initiate discussions with managers. For example, officials said that if auditors felt that specialists' support was not helpful, they could talk to their respective managers. IRS officials also said that they have used feedback from HI/HW auditors to clarify how auditors should record information about related entities.

Although these interactions and reviews may be helpful, IRS does not have a consistent means for collecting or using feedback. Without a mechanism to consistently collect and use feedback, IRS cannot be assured that auditors are sharing certain types of feedback and that IRS understands the feedback issue's prevalence or severity within or across divisions. For example, in all four of our discussion groups with Small Business/Self-Employed auditors, they shared the concern that they sometimes felt pressure from managers to close audits that were not fully developed and that they lacked the time to review all potential compliance issues.⁵³ When we shared this observation with IRS officials, they responded that they were unaware that auditors felt pressured to close cases. Large Business and International auditors in our discussion groups did not share these concerns.

In addition, according to IRS procedures, subject matter experts who assist auditors should seek feedback and implement changes where appropriate.⁵⁴ However, IRS officials could not demonstrate if and how

⁵³For example, one Small Business/Self-Employed auditor said that managers expect auditors to close a certain number of audit cases without regard to the number of issues within a case, which can be numerous for HI/HW audits. Two other Small Business/Self-Employed auditors said that managers did not encourage them to open audits of related entities because of the audit steps required or time limitations. As a result, auditors may be missing audit issues or not thoroughly examining taxpayer records, according to these auditors.

⁵⁴IRM 4.54.1.1.8.6.

such feedback was solicited and used to improve assistance to auditors or other IRS operations for HI/HW auditing.

IRS officials acknowledged the absence of a mechanism to consistently collect and use feedback on some aspects of HI/HW auditing and said they plan to create additional feedback procedures. They stated that IRS has focused on developing other aspects of HI/HW audit efforts. Without a mechanism to consistently collect and use such feedback, IRS may be missing opportunities to better understand auditors' challenges, determine the extent of such challenges, and track whether any corrective actions have addressed them.

Assessing Hiring and Training Needs

In our prior work on strategic workforce planning, we reported that, as a key practice, agencies should assess current and future workforce needs and create strategies for identifying and filling any gaps.⁵⁵ IRS officials provided plans for hiring and training audit staff. However, these plans did not (1) assess IRS's current and future hiring and training needs for HI/HW audits, (2) determine what gaps may exist between these needs and IRS's current staffing and skill levels, and (3) include strategies for how IRS plans to hire and train HI/HW audit staff to fill those gaps.

IRS's Strategic Operating Plan

Among other things, IRS will

- focus on hiring employees with the education and experience needed (Objective 3, Initiative 3.4);
- expand its use of data and analytics to allocate resources effectively to meet enforcement needs (Objective 4, Initiative 4.7); and
- meet the challenges of growing its workforce with a comprehensive, data-driven approach (Objective 5, Initiative 5.6).

Source: Internal Revenue Service. | GAO-24-106112

⁵⁵Strategic workforce planning addresses two critical needs: (1) aligning the human capital program with the current and emerging mission and goals, and (2) developing long-term strategies for acquiring, developing, and retaining staff to achieve goals. See GAO, *Human Capital: Key Principles for Effective Strategic Workforce Planning*, GAO-04-39 (Washington, D.C.: Dec. 11, 2003). We previously applied these key practices to assess IRS. See GAO, *Internal Revenue Service: Strategic Human Capital Management is Needed to Address Serious Risks to IRS's Mission*, GAO-19-176 (Washington, D.C.: Mar. 26, 2019).

Hiring Needs

Attrition. IRS officials noted that they have lost a significant number of staff who could audit HI/HW returns.⁵⁶ For example, between 2010 and 2023, Large Business and International lost more than half its primary workforce who audit HI/HW returns.⁵⁷ IRS officials have detailed plans showing the number and type of staff to hire using Inflation Reduction Act of 2022-appropriated funds. Officials said that the hiring numbers include HI/HW audit staff. However, the plan does not specify how many or which positions would be directed toward meeting HI/HW audit needs, what those needs are, where gaps might exist between those needs and IRS's current staffing, and how hiring would fill those gaps.

Experienced auditors. IRS officials said it takes a minimum of 3 years' experience to effectively audit the highest income returns. To reduce this time, IRS plans to hire more experienced and knowledgeable auditors whom they could quickly train to audit HI/HW returns. However, the hiring plan officials provided did not discuss hiring such staff or assess the extent to which hiring such staff would better address IRS's HI/HW audit needs.

Specialists. We discussed access to specialists in eight of our 10 discussion groups, and participants expressed frustrations that IRS did not have enough specialists.⁵⁸ For example, one discussion group participant said regarding specialists, "They're great people and they're willing to help but there's just not enough of them." IRS provided us data from its specialist referral system illustrating the demand for specialist assistance for HI/HW audits.⁵⁹ However, IRS did not demonstrate if or

⁵⁶TIGTA has reported on factors impeding auditor hiring, including IRS Human Capital devoting resources to support a hiring surge for IRS's Wage and Investment Division, and IRS pausing auditor hiring following an Office of Personnel Management review on IRS's authority to noncompetitively promote employees. Treasury Inspector General for Tax Administration, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers*, 2023-30-054 (Washington, D.C.: Aug. 31, 2023).

⁵⁷Large Business and International staff auditing HI/HW returns would generally be General Schedule (GS)-13 employees. In September 2010, Large Business and International had 3,785 GS-13 employees, compared to 1,669 in March 2023.

⁵⁸If auditors determine that the audit covers tax issues outside their area of expertise, IRS procedures require auditors to request the help of IRS specialists. IRM 4.10.5.2.3(2).

⁵⁹For example, these data showed that about 38 percent of fiscal year 2015 to 2023 requests for specialist assistance were rejected for reasons including "lack of staffing," "insufficient time to complete," "lack of substantial issues," and "limited scope audit."

how it used the data to determine the number and types of specialists to hire.⁶⁰

Training Needs

IRS has not assessed HI/HW audit training needs nor created a strategy for filling any gaps.⁶¹ For example:

- IRS officials said that auditors can access online training on HI/HW training topics, as needed. According to officials, IRS has data on the number of times staff accessed the portal for these trainings. However, IRS officials said they do not have data on which trainings auditors accessed or the frequency or duration of access to help assess IRS's HI/HW training needs and develop plans to address them.
- Large Business and International officials provided a list of trainings on technical tax issues it had given to HI/HW auditors. However, officials did not demonstrate that they used a data-driven approach to determine what trainings were needed.
- Small Business/Self-Employed has started to develop a tool to assess its training needs for HI/HW auditing. Specifically, the tool will allow for both the auditor and manager to complete an assessment of the auditor's skills and experience. Officials said the tool will help IRS adjust its training to focus on individual auditor training needs, and that they planned to implement the tool in 2024. However, they provided no further details about how they would implement the tool or use it to address any skills gaps or improve training. For example, officials did not explain how they would use the assessment tool to revise the training curriculum to better prepare new auditors for HI/HW audits. According to a plan IRS shared in August 2023, Small Business/Self-Employed used its existing training curriculum to train staff it planned to hire in

⁶⁰In September 2023, IRS officials described how they used other data, such as estimates of attrition and demand, to determine the hiring needs for certain specialist positions. However, IRS did not provide the underlying data supporting these descriptions.

⁶¹In addition, TIGTA has reported that IRS's new-hire training does not directly address HI/HW taxpayer auditing efforts. Treasury Inspector General for Tax Administration, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers* (Washington, D.C.: Aug. 31, 2023).

summer 2023 to audit HI/HW returns.⁶² IRS documentation acknowledges that the current curriculum is a bridge between the existing curriculum and the future state with a focus on HI/HW issues. However, the documentation does not demonstrate how Small Business/Self-Employed will determine its HI/HW training needs or train its audit staff to fill any skills gaps.

In eight out of 10 discussion groups, participants discussed challenges related to training. For example, in seven of these groups, participants shared the view that not regularly auditing HI/HW returns can make it difficult to maintain knowledge and expertise acquired from training or past audits. According to one participant:

“[T]here’s a learning curve. And just because ... agents are provided some ... training, and they’re given resources like specialists..., that doesn’t mean that all of a sudden they know the issues. It’s one thing to be trained. It’s another thing to have the practical experience.... And it takes a little time.... I’m getting like a second wave of these [HI/HW] cases.... I think we will do better this time around.”

IRS officials did not show that they used data on auditor workloads to develop HI/HW training. We analyzed workload data for 924 potential participants in our auditor discussion groups and found that HI/HW audits were, on average, about one-third of Small Business/Self-Employed auditors’ recent workloads.⁶³ Small Business/Self-Employed officials acknowledged that some auditors do not frequently audit HI/HW returns,

⁶²According to the Small Business/Self-Employed training plan, it is training newly hired staff at the GS-5 to 12 levels to audit high-income returns. The plan did not explain why lower-level hires would be auditing HI/HW returns and need such training when the Strategic Operating Plan states IRS will focus on hiring auditors with the education and experience needed to audit HI/HW returns. As noted earlier, Large Business and International generally uses GS-13 staff to audit HI/HW returns.

⁶³Percents include both open and closed cases. Auditors in our discussion groups had at least one open audit as of October 2022 of tax returns reporting TPI of \$500,000 or more, at least one closed audit during fiscal years 2021 and 2022 of tax returns reporting TPI of \$500,000 or more, and a majority of HI/HW audits with TPI of \$1 million or more.

but that Small Business/Self-Employed will work to address this issue as it adjusts its training.⁶⁴

IRS officials said they have not yet focused on assessing their hiring and training needs (e.g., types of auditors and specialists most needed for auditing HI/HW returns and types of specialized training needed) because they have focused on backfilling vacated positions and achieving an 8 percent audit rate, as directed by Treasury. IRS officials also pointed to other factors that complicate assessing hiring and training needs: hurdles created by not hiring for an extended period, logistics of hiring many people all at once, as well as the years of training and experience needed to prepare newly hired staff to effectively audit complex HI/HW returns.

Hiring and training audit staff to improve HI/HW taxpayer compliance is a priority stated in the Strategic Operating Plan and important given IRS's historically low staffing levels. Yet IRS has not used a data-driven approach to assess its hiring and training needs for HI/HW audits, compared these needs to current staffing and skill levels, and developed strategies to fill any gaps. As a result, it may be difficult for IRS to demonstrate that it has enough staff with the necessary skills to audit HI/HW returns as soon as possible, or that these staff will have timely training to enable them to identify the most significant noncompliance on those returns.

Establishing Centralized Management

Federal standards for internal control state that agencies should establish an organizational structure and assign responsibility to achieve its objectives.⁶⁵ IRS's strategic objectives include establishing a centralized function to achieve compliance priorities, such as HI/HW auditing.

Multiple IRS divisions have collaborated on various aspects of HI/HW auditing, including holding periodic coordination calls, developing new audit selection models, and allocating the number of audits to be

⁶⁴We found that HI/HW audits were a larger share of Large Business and International auditor workloads, compared to Small Business/Self-Employed. Officials said they are planning to train auditors based on individual needs, including using issue- and topic-based trainings. Also, they plan to use just-in-time training, rather than delivering all such training upfront.

⁶⁵*Standards for Internal Control in the Federal Government*, [GAO-14-704G](#) (Washington, D.C.: Sept. 10, 2014).

completed by each division to meet the 8 percent audit rate goal.⁶⁶ However, the responsibility for overseeing IRS's efforts to achieve its HI/HW auditing objectives is divided across two IRS divisions—Large Business & International and Small Business/Self-Employed.

IRS's Strategic Operating Plan

Among other things, IRS will

- establish a centralized function for compliance planning and redesign the organization to achieve compliance priorities, rather than rely on historic structures (**Objective 3, Initiative 3.1**); and
- improve organizational structures and governance, focusing on a more unified, simpler structure (**Objective 5, Initiative 5.7**).

Source: Internal Revenue Service. | GAO-24-106112

We found that these divisions differed on some aspects of HI/HW auditing, which can potentially contribute to differences in HI/HW audit results, as well as treatment of taxpayers and related burden.

- **Implementing procedures.** IRS procedures specify that auditors should talk to the taxpayer to determine a reasonable response time for providing requested audit documentation.⁶⁷ In one of our discussion groups with auditors, we heard that some Large Business & International managers may be encouraging auditors to allow more time for taxpayers to respond to IRS requests, whereas Small Business/Self-Employed managers do not.⁶⁸ When we asked IRS officials about this difference, they said that professional judgment is necessary when implementing IRS procedures. For example, allowing taxpayers more time to respond, such as to bolster support to substantiate the return, may be warranted if doing so prevents a lengthier appeals process. However, IRS officials do not monitor to what extent Large Business & International and Small Business/Self-Employed audit staff are implementing procedures differently for similar situations, and if such differences, if any, affect audit results.
- **Expertise.** According to officials, Large Business & International auditors are more familiar with auditing entities, such as corporations, but are less familiar with auditing high-income individuals, excluding

⁶⁶As of August 2023, IRS documentation stated that the number of audits each division would complete to meet the 8 percent goal for tax year 2021 and beyond was unclear and that additional coordination was needed.

⁶⁷IRM 4.46.4 and 4.10.3.4.8.

⁶⁸During this discussion, three out of six auditors raised this concern.

auditors working in the Global High Wealth (GHW) program.⁶⁹ In contrast, officials said Small Business/Self-Employed auditors generally do not audit returns that involve a network of related entities, such as partnerships. The difference in expertise between Large Business & International and Small Business/Self-Employed auditors can lead to missed opportunities to potentially recommend and collect additional taxes owed. For example, a Small Business/Self-Employed auditor in our discussion groups expressed frustration about being unable to obtain the necessary expertise from Large Business & International to audit a tax issue, stating the following:

“...[the] particular issue that was only being worked by Large Business [& International] and I couldn’t get any movement on my case. And I had a slam-dunk issue. So, it was frustrating.”

- **Audit Results.** As discussed earlier, preliminary results, such as the no change rate (see fig. 7) and average hours per audit (see fig. 5), differed between Large Business & International’s initiative (High Income Individual) and Small Business/Self-Employed’s initiative (Compliance Initiative Project) to meet the 8 percent audit rate goal, even though the returns audited in the two initiatives came from the same population of individuals with TPIs of \$10 million or more.⁷⁰

IRS is considering reorganizing its compliance functions, currently operating under different business divisions, to more effectively use IRS resources and, in part, to better address taxpayer noncompliance for HI/HW individuals.⁷¹ However, IRS officials could not provide us documentation on IRS’s reorganization or implementation plans, stating

⁶⁹As discussed earlier, Large Business & International also audits individual returns from other sources besides the GHW program. However, these individual returns may not be high-income. See Treasury Inspector General for Tax Administration, *The IRS Large Business and International Division Should Consider Shifting Individual Examination Resources to More Productive Examinations*, Report Number 2023-30-019 (Washington, D.C.: May 25, 2023).

⁷⁰IRS officials said they did not differentiate between the returns that Large Business & International and Small Business/Self-Employed would audit to meet the 8 percent audit rate goal. The only differentiating factor was the amount of resources each division had to audit additional returns, which determined the number of returns each division would audit per tax year.

⁷¹IRS has not defined high-income taxpayer for compliance purposes. According to an August 2023 Treasury Inspector General for Tax Administration report, IRS should clarify an income threshold for the HI/HW population to better address taxpayer noncompliance through its enforcement efforts. Treasury Inspector General for Tax Administration, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers*, Report Number 2023-30-054 (Washington, D.C.: Aug. 31, 2023).

that they are waiting for approval to finalize these plans.⁷² In addition, IRS cited lack of resources and other priorities for why it has not yet reorganized.

As IRS reorganizes its compliance function, it is important to recognize that the lack of centralized responsibility for managing HI/HW audits can make it difficult to gain a complete understanding of the results of HI/HW audits, to clarify accountability for various tasks, and to ensure that HI/HW audit staff apply audit procedures consistently to help accomplish IRS's mission to fairly enforce the tax law.

Conclusions

IRS has taken some important steps toward ensuring that HI/HW individuals are correctly meeting their tax obligations. For example, IRS has established initiatives to increase the number of audits for taxpayers with \$10 million or more in total positive income, and has started to improve its research data to better understand compliance in this taxpayer population. In addition, IRS's Strategic Operating Plan outlines a vision for enhancing its HI/HW enforcement efforts. However, we found that IRS does not yet have clear plans for certain aspects of HI/HW audits. Specifically, we found:

- **Assessing data sufficiency.** IRS could not demonstrate that it had assessed whether its research data are sufficient to achieve the strategic objectives of improving its understanding of complex HI/HW returns and related compliance issues. For example, according to IRS and other researchers, these research data do not effectively identify all types of HI/HW tax evasion. IRS could not demonstrate that it had assessed how to address these limitations.
- **Evaluating selection models.** IRS officials said they are in varying stages of updating or developing models to identify HI/HW returns for audit selection. However, IRS generally could not provide plans for evaluating the effectiveness of the models.
- **Collecting and using internal feedback.** IRS does not have a mechanism for auditors to consistently share feedback with managers to improve HI/HW auditing.

⁷²IRS has recently experienced changes in leadership. IRS's commissioner assumed office in March 2023, and in July 2023, IRS selected a new Chief Transformation and Strategy Officer, a recently created role to spearhead agency improvement efforts under Inflation Reduction Act of 2022 funding.

- **Assessing hiring and training needs.** IRS has not demonstrated that it used a data-driven approach to assess its hiring and training needs for HI/HW audits, such as the number and type of HI/HW staff that need to be hired or how training could be improved; compared these needs to current staffing and skill levels; and developed strategies to fill any gaps.
- **Establishing centralized management.** IRS's HI/HW auditing is currently divided across divisions, and IRS lacks centralized responsibility for managing HI/HW audits. IRS has not shared its plans for reorganizing its compliance functions. In our discussion groups with audit staff, we heard of inconsistencies in implementing audit procedures and having expertise to audit HI/HW returns.

By focusing on these areas, IRS can better understand the types and prevalence of noncompliance on HI/HW returns, maintain accountability to meet its strategic objectives and vision, and further its mission of fairly enforcing the tax law.

Recommendations for Executive Action

We are making the following eight recommendations to IRS:

The Commissioner of Internal Revenue should assess whether IRS's research data on HI/HW returns have sufficient coverage and quality to understand the complexity and compliance related to HI/HW tax returns. (Recommendation 1)

Based on an assessment of the coverage and quality of HI/HW tax return research data, the Commissioner of Internal Revenue should take steps to improve those data, if needed, to better understand the complexity and compliance related to HI/HW tax returns. (Recommendation 2)

The Commissioner of Internal Revenue should develop evaluation plans that include relevant evaluation questions and appropriate evaluation designs to evaluate the effectiveness of IRS's models for selecting HI/HW returns for audit. (Recommendation 3)

The Commissioner of Internal Revenue should use IRS's evaluation plans to evaluate the effectiveness of its models for selecting HI/HW returns for audit. (Recommendation 4)

The Commissioner of Internal Revenue should develop a mechanism for consistently collecting and using feedback from audit staff. (Recommendation 5)

The Commissioner of Internal Revenue should assess IRS's current and future hiring and training needs for HI/HW auditing, including the number of staff and their skills. (Recommendation 6)

The Commissioner of Internal Revenue should develop and implement a strategy for hiring and training staff to meet IRS's needs for HI/HW auditing. (Recommendation 7)

The Commissioner of Internal Revenue should centralize IRS's management of HI/HW audit efforts and responsibilities. This centralization of management could be implemented as part of IRS's effort to redesign its compliance organization. (Recommendation 8)

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for comment. IRS provided written comments, which are reproduced in appendix V. In its letter, IRS said that our recommendations to improve HI/HW audits align with its ongoing efforts to expand enforcement for taxpayers with complex returns and high-dollar noncompliance. IRS fully agreed with seven of our recommendations and partially agreed with one recommendation, as discussed below. IRS also provided technical comments, which we incorporated as appropriate.

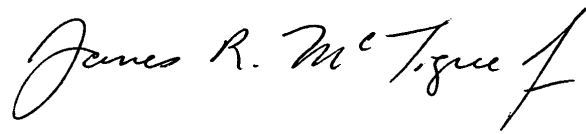
IRS partially agreed to centralize management and responsibilities for HI/HW audits (recommendation 8). IRS said it will centralize planning and tracking for HI/HW audits starting in fiscal year 2024. These steps may address our concern that IRS does not centrally manage its HI/HW audits. As IRS implements this recommendation, it will be important to not only centrally plan and track HI/HW audits but also to centrally oversee HI/HW audits so that IRS can better maintain accountability and consistency for all its HI/HW efforts across IRS divisions.

As agreed with your office, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies to the Commissioner of Internal Revenue, the appropriate congressional committees, and other interested parties. In addition, the report will be available at no charge on the GAO website at <https://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or McTigueJ@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Letter

Sincerely yours,

A handwritten signature in black ink that reads "James R. McTigue, Jr." The signature is written in a cursive style with a large, stylized initial "J" and "M".

James R. McTigue, Jr.
Director, Tax Policy and Administration
Strategic Issues Team

Appendix I: Objectives, Scope, and Methodology

To describe the audit results of (1) high-income/high-wealth (HI/HW) individuals, which we define as those with total positive incomes (TPI) of \$500,000 or more, and (2) the Internal Revenue Service's (IRS) initiatives to audit more high-income individuals with TPI of \$10 million or more, we analyzed IRS data and took various steps, as described below.

Data sources. We analyzed data from IRS's system that tracks the status, results, and hours from audits of individual tax returns (Audit Information Management System Computer Information System). We also analyzed data from a different IRS system that tracks taxes assessed and collected from various enforcement activities such as audits (Enforcement Revenue Information System).

To assess the reliability of these data, we interviewed or received written responses from IRS officials in the following divisions: Small Business/Self-Employed; Large Business & International; and Research, Applied Analytics, and Statistics. We noted any data limitations—as applicable—within the report. We determined that the data presented in this report are sufficiently reliable for the purposes of our objectives.

Fiscal year. We analyzed data based on the fiscal year the audit closed because many audits for recent tax years are still open. Analyzing audits closed during a fiscal year, which can include returns filed during multiple tax years, allowed us to analyze more years (fiscal years 2012 through 2022), and ensure that we compared complete and comparable results across years. The data we used in this report were the most recent data available at the time of our review—as of July 2023 for audit data, and as of June 2023 for recommended tax, assessment, and collection data.

Income groups. To analyze returns within our scope of work (individual tax returns with total positive income of \$500,000 or more), we used the same income groups as those reported in IRS's 2022 Data Book Table 17. IRS does not have a specific income threshold defining HI/HW. Therefore, for the purposes of this report, we defined HI/HW as starting with TPI of \$500,000 to align with the IRS Data Book income category closest to the Department of the Treasury's \$400,000 threshold for enhancing enforcement activities. Our scope of work focused on taxpayer income and did not include analyzing audits by other characteristics, such as type of audit, type of auditor, or audit location.

Average. We presented our analysis results using averages rather than medians because (1) IRS had previously published averages rather than medians in its Data Book, and (2) medians may be difficult to interpret when data are not evenly distributed. We recognize that outlier data can distort averages. To mitigate this risk, we shared our preliminary analysis with IRS officials to better understand our calculated averages. IRS officials discussed factors that might be driving the averages, which we discuss in the report.

Audit results. We analyzed audit results in terms of amount of (1) additional taxes the auditor recommended, and (2) the amounts IRS eventually assessed and collected either through voluntary payment or additional enforcement actions. We compared audit results across four income categories and identified trends. Similar to IRS's Data Book, we did not adjust these amounts for inflation. To analyze audit results for IRS's initiatives, we limited our scope of analysis to audits with \$10 million or more TPI. Because these initiatives started in 2020, our data analyses of audit results focus on audits that closed in fiscal years 2021 and 2022.

We also analyzed the rate of audits resulting in no changes to taxes owed. IRS considers adjustments to the return as a change, even if the amount of taxes owed did not change, because these adjustments may affect related returns (e.g., partnership returns), according to IRS officials. We differed from IRS's methodology and considered adjusted returns with no change in taxes owed as a "no change" audit because IRS did not recommend additional taxes from auditing the primary return.

Audit resources. IRS tracks audit resources in terms of total number of hours that auditors spent on auditing returns. This time does not include time charged for administrative support or other audit-related activities.

Our review did not include analyzing audit-level data to calculate a return on investment for each audit. In prior work, IRS officials said that IRS tracks the number of audit hours separately from the cost of audit hours, which varies by auditor's position and experience, among other factors.

Status and plans. To describe the status and plans of IRS's two initiatives to audit more HI/HW individuals (objective 2), we reviewed IRS documentation and interviewed IRS officials about the objectives, recent changes, and planned actions for these initiatives.

To describe challenges of auditing HI/HW individuals (objective 3), we held discussion groups with IRS audit staff and took various steps, as described below.

Documentation review. To understand how IRS audits HI/HW individuals and the challenges involved, we reviewed our prior reports related to IRS audits. We also reviewed various other reports, such as IRS's strategic operating plan and annual performance report, Treasury Inspector General for Tax Administration audits and evaluations, and the National Taxpayer Advocate's Annual Report to Congress. We also reviewed documentation from IRS's Transformation and Strategy Office, which is responsible for implementing IRS's strategic operating plan, and from IRS's National Research Program, which audits HI/HW individuals to measure compliance and inform audit selection. To better understand the auditing process, we reviewed IRS's Internal Revenue Manual.

Interviews. We interviewed IRS officials who are responsible for managing HI/HW audits, primarily in the Small Business/Self-Employed and Large Business & International divisions, to obtain their perspective on audit challenges and discussion group participants' views on these challenges.

Discussion groups. Discussion groups are intended to generate in-depth information about the reasons for participants' attitudes on specific topics and to offer insights into their concerns about and support for an issue. They are not designed to demonstrate the extent of a problem, generalize results to a larger population, or make decisions about what actions to take.

- **Purpose.** We held group discussions with front-line managers and auditors to learn what challenges HI/HW auditors face, the effect of challenges on managing or conducting audit work, IRS actions to address challenges, challenges that front-line staff feel are highest priority to address, and suggestions for addressing challenges or improving procedures.
- **Participants.** Our discussion group participants consisted of IRS revenue agents (auditors) and managers in the Small Business/Self-Employed and Large Business & International divisions. To obtain views from staff who were experienced with HI/HW audits, we identified those who
 - closed at least one HI/HW audit (total positive income (TPI) of \$500,000 or more) in recent years,
 - had at least one open HI/HW audit, and
 - had a majority of HI/HW audits with TPI of \$1 million or more.

We excluded from our discussion groups (1) auditors whose workload was primarily below \$500,000 TPI, (2) specialists because their

responsibilities are largely different from auditors, and (3) senior managers (e.g., area or territory manager) because they are relatively few in number and have less of a front-line perspective on audit challenges.

To select group participants, we obtained a list of potential participants from IRS and narrowed the list based on staffs' experience (discussed above). We then randomized the narrowed list and contacted IRS staff to invite them to participate in our groups until we reached the desired number of participants. In response to our invitation, some IRS staff indicated they could not knowledgeably speak about HI/HW audits. We did not include these staff in our discussion groups and invited the next potential participant on the list.

We held a total of 10 discussion groups—six with Small Business/Self-Employed audit staff (two groups with managers, two groups with auditors working audits of \$500,000 to \$10 million TPI, and two groups with auditors working audits of \$10 million or more TPI), and four with Large Business & International audit staff (one group with Global High Wealth (GHW) managers, one group with GHW auditors, one group with non-GHW managers, and one group with non-GHW auditors).

- **Format.** We conducted the discussion groups virtually using video-conferencing software. Each focus group was approximately 90 minutes with six to nine participants in each group. A senior design methodologist facilitated each group, including three pre-tests to verify that our instructions and discussion questions were clear and that the format of the groups was appropriate to obtain the information we needed. We conducted these pre-tests and discussion groups between December 2022 and February 2023.
- **Topics and questions.** To determine discussion topics, we interviewed IRS officials to understand the process for auditing high-income individuals and what challenges might exist for auditors. We then organized officials' comments into various categories of challenges, which we presented to group participants to discuss and rank their three highest priority challenges for IRS to address
 - IRS research tools and data (e.g., YK1, CKGE, Accurint)
 - IRS technology to interact with taxpayers and request/receive audit documentation
 - Identifying taxpayer noncompliance (e.g., complex ownership structures and income flows)
 - Steps taken by taxpayers or their representatives to delay or obstruct the audit

- Resources/time needed for travel to multiple audit locations
- Balancing the number of audits with the scope and depth of audits
- Time to audit international/foreign tax issues
- Procedures for auditing related entities
- Obtaining help from specialists
- Revenue agent training on high-income audits

Using a pre-tested discussion guide, we asked the following questions:

- (1) Is anything unfamiliar or not represented and would not fit under one of these categories?
 - (2) What steps, if any, has IRS recently taken to improve on these challenges or other processes revenue agents use to conduct audits of high income/high wealth taxpayers? How effective have these steps been?
 - (3) Please rank the 3 challenges you feel are the highest priority for IRS to address, regardless of whether IRS has already taken any action to address them.
 - (4) How does this challenge affect your high-income audits? For example: How often are your audits affected? Type of impact?
 - (5) What is needed to address or resolve this challenge? What changes would you particularly want IRS to pursue?
 - (6) Does anyone have comments about key challenges that we did not cover today or additional thoughts on those we discussed?
- **Analysis of group comments.** We used an outside contractor to professionally transcribe each discussion group. To analyze the transcripts, multiple analysts independently categorized participants' comments to identify the nature of the comment (challenge, solution, or IRS helpful action) and to which challenge the comment referred. We then compared the analysts' categorization and, when necessary, reconciled any differences to determine the final categorization result.

To assess IRS's efforts to audit HI/HW individuals (objective 4), we reviewed documentation and interviewed agency officials to learn about

IRS's efforts and assessed IRS's efforts against relevant criteria, as described below.

Criteria. We identified relevant criteria, such as our prior work on leading practices for human capital management and designing evaluations. We also determined that the following components of internal control and their related underlying principles were significant to this objective:

- **Control environment.** Agencies should establish an organizational structure and assign responsibility to achieve its objectives. We assessed how IRS managed its HI/HW audits to determine whether its organizational and management structure enabled it to achieve agency objectives, such as understanding complex HI/HW returns better and addressing taxpayer noncompliance.
- **Information and communication.** Agencies should internally communicate the necessary quality information to achieve objectives. We assessed the mechanisms IRS uses to collect staff feedback to determine whether they provide quality information and whether IRS officials used such information to improve HI/HW auditing.

We supplemented these criteria with IRS's strategic operating plan, which describes various objectives and initiatives that IRS plans to undertake to improve compliance of HI/HW individuals.

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

Table 2: Total Number of Closed Individual Audits, by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	23,000	23,975	25,832	26,598	18,893	15,658	12,433	10,535	7,533	8,962	11,516
\$1 Million to under \$5 Million	27,377	27,848	23,652	27,244	19,513	16,121	11,931	10,266	8,159	9,926	10,465
\$5 Million to under \$10 Million	3,799	3,425	3,176	4,326	3,234	2,645	1,767	1,431	1,212	1,302	1,374
\$10 Million or More	3,830	3,204	3,215	4,710	3,687	3,068	1,903	1,749	1,520	1,983	3,397

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 3: Total Recommended Additional Tax (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$424.3	\$409.7	\$372.2	\$316.8	\$326.4	\$315.9	\$366.2	\$288.0	\$237.9	\$278.8	\$251.2
\$1 Million to under \$5 Million	\$816.8	\$720.8	\$716.6	\$614.3	\$706.0	\$591.4	\$598.5	\$567.1	\$545.6	\$729.3	\$1,055.0
\$5 Million to under \$10 Million	\$296.1	\$204.7	\$211.9	\$214.1	\$200.8	\$233.0	\$215.5	\$124.7	\$151.1	\$283.0	\$264.7
\$10 Million or More	\$615.9	\$701.3	\$1,003.8	\$1,067.7	\$995.6	\$734.8	\$1,044.2	\$754.0	\$442.5	\$809.2	\$3,428.3

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

Table 4: Total Recommended Additional Tax from Audits with No Pending Disputes (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$389.1	\$400.7	\$365.1	\$314.1	\$317.9	\$283.7	\$343.4	\$266.0	\$216.4	\$227.2	\$179.5
\$1 Million to under \$5 Million	\$795.0	\$677.5	\$692.3	\$603.9	\$653.2	\$513.6	\$531.3	\$439.8	\$353.6	\$470.7	\$478.8
\$5 Million to under \$10 Million	\$295.9	\$202.9	\$203.8	\$211.4	\$158.4	\$224.7	\$179.5	\$99.3	\$119.6	\$205.1	\$161.6
\$10 Million or More	\$598.4	\$669.5	\$990.0	\$1,061.2	\$727.8	\$713.0	\$951.9	\$586.4	\$395.6	\$655.4	\$2,445.9

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 5: Total Recommended Additional Tax (in Millions), including High-Income Initiatives, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global High Wealth	\$24.7	\$91.7	\$353.2	\$271.1	\$193.3	\$136.6	\$186.5	\$103.3	\$153.3	\$291.0	\$470.6
High Income Individual	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$0.8	\$22.3
Over \$10 Million Total Positive Income Compliance Initiative Project	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$9.0	\$24.2
Other \$10 Million or More Audits	\$591.2	\$609.7	\$650.6	\$796.6	\$802.4	\$598.3	\$857.7	\$650.7	\$289.2	\$508.4	\$2,911.2

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Note: “—” indicates that there are no data available for that year.

Table 6: Total Assessed Additional Tax (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$282.7	\$279.5	\$258.5	\$252.9	\$245.7	\$241.3	\$288.1	\$220.9	\$180.5	\$223.9	\$182.8

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$1 Million to under \$5 Million	\$588.3	\$487.7	\$536.1	\$485.7	\$485.7	\$398.2	\$436.7	\$410.6	\$307.2	\$501.7	\$471.1
\$5 Million to under \$10 Million	\$233.8	\$160.0	\$164.6	\$162.8	\$127.8	\$145.1	\$138.0	\$80.7	\$112.8	\$235.2	\$166.6
\$10 Million or More	\$466.5	\$526.0	\$749.9	\$786.1	\$683.9	\$540.4	\$326.6	\$586.4	\$361.8	\$619.0	\$2,670.6

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 7: Total Assessed Additional Tax from Audits with No Pending Disputes (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$282.5	\$279.5	\$258.5	\$252.8	\$245.7	\$240.0	\$287.6	\$220.9	\$179.9	\$204.3	\$167.8
\$1 Million to under \$5 Million	\$588.3	\$487.6	\$517.0	\$485.2	\$484.4	\$396.7	\$435.1	\$386.4	\$304.6	\$442.8	\$452.5
\$5 Million to under \$10 Million	\$233.8	\$159.5	\$162.1	\$161.3	\$127.1	\$145.1	\$138.0	\$75.3	\$107.8	\$199.6	\$157.9
\$10 Million or More	\$466.5	\$518.4	\$749.2	\$785.7	\$616.3	\$536.0	\$324.4	\$498.3	\$353.9	\$607.6	\$2,412.2

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 8: Total Assessed Additional Tax (in Millions), including High-Income Initiatives, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global High Wealth	\$24.7	\$82.0	\$204.2	\$167.6	\$118.1	\$85.5	\$65.5	\$73.8	\$137.3	\$237.0	\$150.2
High Income Individual	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$0.8	\$15.8
Over \$10 Million Total Positive Income Compliance Initiative Project	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$8.4	\$11.9
Other \$10 Million or More Audits	\$441.8	\$444.0	\$545.7	\$618.5	\$565.8	\$454.9	\$261.1	\$512.6	\$224.5	\$372.8	\$2,492.7

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

Note: “—” indicates that there are no data available for that year.

Table 9: Total Collected Additional Tax (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$200.9	\$220.9	\$192.0	\$172.0	\$194.8	\$179.3	\$223.2	\$156.1	\$115.8	\$126.6	\$91.4
\$1 Million to under \$5 Million	\$419.9	\$370.2	\$358.6	\$356.2	\$353.1	\$316.1	\$341.9	\$273.3	\$222.1	\$253.7	\$201.3
\$5 Million to under \$10 Million	\$190.6	\$121.6	\$108.5	\$106.7	\$111.1	\$118.6	\$95.1	\$67.6	\$73.1	\$97.2	\$106.4
\$10 Million or More	\$329.7	\$332.4	\$508.5	\$494.1	\$352.5	\$445.8	\$211.1	\$200.9	\$198.2	\$388.2	\$2,066.6

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 10: Total Collected Additional Tax from Audits with No Pending Disputes (in Millions), by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$200.9	\$220.9	\$192.0	\$172.0	\$194.8	\$179.3	\$223.1	\$156.1	\$115.7	\$126.4	\$90.6
\$1 Million to under \$5 Million	\$419.9	\$370.2	\$358.6	\$356.1	\$352.0	\$315.8	\$340.6	\$273.2	\$221.8	\$246.9	\$195.5
\$5 Million to under \$10 Million	\$190.6	\$121.6	\$107.1	\$106.1	\$110.5	\$118.6	\$95.1	\$66.3	\$73.1	\$96.8	\$105.5
\$10 Million or More	\$329.7	\$325.0	\$508.2	\$493.7	\$327.4	\$444.9	\$210.9	\$198.5	\$197.6	\$385.5	\$1,994.1

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 11: Total Collected Additional Tax (in Millions), including High-Income Initiatives, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global High Wealth	\$20.2	\$56.6	\$183.0	\$145.8	\$81.5	\$64.4	\$51.8	\$26.8	\$66.6	\$165.9	\$28.4
High Income Individual	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$0.8	\$15.4

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Over \$10 Million Total Positive Income Compliance Initiative Project	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$8.1	\$11.1
Other \$10 Million or More Audits	\$309.5	\$275.8	\$325.5	\$348.3	\$271.0	\$381.4	\$159.3	\$174.1	\$131.6	\$213.5	\$2,011.7

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Note: “—” indicates that there are no data available for that year.

Table 12: Average Recommended Additional Tax per Audit Hour, by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	\$1,177	\$1,081	\$1,137	\$979	\$1,063	\$1,045	\$1,243	\$957	\$1,069	\$1,009	\$1,155
\$1 Million to under \$5 Million	\$1,588	\$1,290	\$1,472	\$1,340	\$1,585	\$1,499	\$1,453	\$1,405	\$1,743	\$1,680	\$2,829
\$5 Million to under \$10 Million	\$4,293	\$2,925	\$2,990	\$3,267	\$3,181	\$3,958	\$3,138	\$2,109	\$2,898	\$3,986	\$3,480
\$10 Million or More	\$6,478	\$6,388	\$7,860	\$8,710	\$8,192	\$6,975	\$10,254	\$5,524	\$5,068	\$5,738	\$13,011

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 13: Average Recommended Additional Tax per Audit Hour, including High-Income Initiatives, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global High Wealth	\$1,269	\$3,118	\$6,642	\$5,143	\$5,307	\$4,115	\$6,350	\$2,392	\$6,515	\$12,147	\$17,502
High Income Individual	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$62	\$210
Over \$10 Million Total Positive Income Compliance Initiative Project	no data	no data	no data	no data	no data	no data	no data	no data	no data	\$569	\$816
Other \$10 Million or More Audits	\$7,822	\$7,584	\$8,730	\$11,403	\$9,426	\$8,289	\$11,837	\$6,974	\$4,534	\$5,752	\$29,055

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Note: “—” indicates that there are no data available for that year.

Appendix II: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Taxpayers, Fiscal Years 2012 to 2022

Table 14: No-Change Rate, by Taxpayer Total Positive Income, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
\$500,000 to under \$1 Million	41.85%	43.35%	51.53%	53.46%	46.91%	42.52%	35.50%	30.46%	28.04%	27.55%	33.51%
\$1 Million to under \$5 Million	51.34%	45.96%	50.61%	56.05%	49.13%	45.31%	35.10%	30.83%	31.90%	34.20%	34.18%
\$5 Million to under \$10 Million	56.23%	47.39%	53.81%	62.11%	54.05%	50.85%	35.48%	36.27%	35.73%	33.95%	37.34%
\$10 Million or More	55.69%	45.54%	52.94%	63.04%	53.86%	51.63%	40.51%	37.45%	41.38%	39.79%	42.01%

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Table 15: No-Change Rate, including High-Income Initiatives, Fiscal Years 2012 to 2022 (as of June 2023)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global High Wealth	36.51%	50.88%	44.32%	43.50%	45.88%	48.94%	42.21%	48.31%	37.88%	32.26%	39.10%
High Income Individual	no data	no data	no data	no data	no data	no data	no data	no data	no data	70.51%	66.36%
Over \$10 Million Total Positive Income Compliance Initiative Project	no data	no data	no data	no data	no data	no data	no data	no data	no data	58.85%	50.00%
Other \$10 Million or More Audits	56.01%	45.34%	53.44%	63.90%	54.31%	51.81%	40.37%	36.22%	41.71%	35.57%	36.89%

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Note: “—” indicates that there are no data available for that year.

Appendix III: Additional Tables on Internal Revenue Service Audit Results for Returns of High-Income/High-Wealth Individuals, Tax Years 2018 to 2020

Table 16: Total Number of Individual Returns Filed, by Taxpayer Total Positive Income, Tax Years 2018 to 2020

	2018	2019	2020
\$500,000 to under \$1 Million	1,249,264	1,298,420	1,385,407
\$1 Million to under \$5 Million	566,107	574,713	622,329
\$5 Million to under \$10 Million	41,434	40,191	46,254
\$10 Million or More	26,517	24,457	30,646

Source: Internal Revenue Service. | GAO-24-106112

Table 17: Total Number of Closed and Open Individual Audits, by Taxpayer Total Positive Income, Tax Years 2018 to 2020 (as of July 2023)

	2018	2019	2020
\$500,000 to under \$1 Million	5,972	9,480	8,549
\$1 Million to under \$5 Million	7,601	9,433	5,691
\$5 Million to under \$10 Million	1,121	1,350	978
\$10 Million or More	2,801	2,784	2,784

Source: GAO analysis of Internal Revenue Service data. | GAO-24-106112

Appendix IV: Additional Information on Discussion Group Results

We held 10 discussion groups with 27 IRS audit managers and 43 auditors in the Internal Revenue Service’s (IRS) Small Business/Self-Employed and Large Business & International divisions to learn about the challenges IRS faces in auditing high-income/high-wealth (HI/HW) taxpayers. This appendix describes which challenges group participants chose as the highest priorities for IRS to address, actions IRS has taken to address the challenges, and additional participant views on the challenges. The groups are not statistically representative, and participant comments are not generalizable.

To determine discussion topics, participants voted on the three challenges they felt were the highest priority for IRS to address, regardless of whether IRS has already taken any action to address them. For the challenges that received the most votes in each group, we asked questions to learn how they affected HI/HW audits. Table 18 shows each challenge and number of participant votes across the 10 groups. We did not ask questions about two challenges—time to audit international/foreign tax issues and resources/time needed to travel to multiple audit locations—because they received the least number of votes.

Table 18: Highest-Priority Challenges for IRS to Address Based on Participant Votes

Category	Total Participant Votes
Identifying taxpayer noncompliance (e.g., complex ownership structures and income flows)	38
Balancing the number of audits with the scope and depth of audits	30
Steps taken by taxpayers or their representatives to delay or obstruct the audit	25
Revenue agent training on high-income audits	23
IRS technology to interact with taxpayers and request/receive audit documentation	21
Procedures for auditing related entities	16
Obtaining help from specialists	15
IRS research tools and data (e.g., Link Analysis Tool, Compliance Data Warehouse Knowledge Graph Environment, Accurint)	9

**Appendix IV: Additional Information on
Discussion Group Results**

Category	Total Participant Votes
Time to audit international/foreign tax issues	8
Resources/time needed for travel to multiple audit locations	4

Source: GAO analysis of discussion groups. | GAO-24-106112

Note: Seventy auditors and managers participated in the discussion groups, of which seven did not vote on challenges based on our instructions. We removed their votes from the table above, resulting in a total of 189 participant votes.

The following summarizes the discussions of how each challenge affected the audit. We also refer to a few examples from group participants of steps taken by IRS to address these challenges, and of other possible changes to address or resolve them.¹ While participants described helpful IRS actions for many of the challenges below, in no case did the IRS actions entirely resolve the challenge.

- **Identifying taxpayer noncompliance.** In discussing this challenge, some participants explained that it can be difficult to determine which part of the tax return represents the most significant risk of noncompliance because HI/HW tax returns are complex. For example, according to one auditor,

“So how does this challenge affect high-income audits? Well, they’re bigger. They’re more complex. They have more going on, and so it’s not like they have red flags. On the smaller audits, you can see them. They stand out like a sore thumb. These ones are more complex. [Auditors] have to know the law better. [Auditors] have to know how to pull these 100-page returns apart and see what matters and see what they need.”
- **Balancing the number of audits with the scope and depth of audits.** In discussing this challenge, some auditors said they sometimes felt pressure from management to close HI/HW audits that are not fully developed, and that they lacked the time to review all potential issues of noncompliance because they needed to adhere to various procedural steps and timing requirements. Some auditors also said that it takes too long for returns to be assigned to them, meaning they have less time to conduct the audit.² Some participants suggested that timing requirements—such as how long an auditor can

¹We use phrases such as “some participants said” to indicate that at least two participants made similar statements regardless of the number of groups in which the statements were made.

²By statute, IRS generally has 3 years after a return is due or was filed, whichever is later, to audit returns for additional tax assessments. 26 U.S.C. § 6501.

work on an audit before it is considered to be “over-age”—should not be the same for all types of audits but rather should reflect the audit’s complexity and time needed to thoroughly audit the case.

“I have very complicated audits that are taking a long time with very material issues and... after a certain time period, my manager’s on me every month and then my territory manager comes in and starts [saying], let’s get this closed.... And the problem is that if I close a... case that hasn’t been fully developed and it goes to appeals and the taxpayer walks in with documents to appeals, it’s going to get kicked back to me anyway.... So to me, giving us the time to finish the audit before it goes on to appeals is what, you know, the management needs to let us do.”

- **Steps taken by taxpayers or their representatives to delay or obstruct the audit.** In discussing this challenge, some participants said that some HI/HW taxpayer representatives practice the “art of hindrance,” intentionally delaying the audit by taking the maximum amount of time to provide the minimum amount of information. Some auditors said that some IRS audit managers may be unduly accommodating HI/HW taxpayers by asking the auditor to continue working with the taxpayer, rather than disallow expenses and close audits when the taxpayer did not timely provide adequate records to support expenses.

“The more wealthy the taxpayers are, the more layers of attorneys and Certified Public Accountants that they put that wall up.... Their game is to drag it along.”

- **Revenue agent training on high-income audits.** In discussing this challenge, some participants said they need time to practice and learn how to audit HI/HW returns; that is, IRS providing training, resources, and specialists does not immediately translate into knowing the relevant HI/HW tax issues. Some auditors said while much of their training has been helpful, they did not have enough training to be knowledgeable about HI/HW issues. In addition, some auditors said that too much time can elapse between training and auditing the specific issues discussed in training. Some participants described helpful IRS actions regarding training, such as periodic group update calls to discuss issues, ask questions, and consult with specialists.

“[The] ongoing monthly calls... have been very beneficial in particular for agents doing [HI/HW] cases for the first time.... So they seem to be very hands on, and they will assist and get [auditors] up and running fast.”

- **IRS technology to interact with taxpayers and request/receive audit documentation.** In discussing this challenge, some auditors said that while using email and file-sharing services to receive documentation from taxpayers has been helpful, file-size restrictions and program slowness can make these technology tools difficult to use. Participants in six groups described improvements that IRS has made—such as video conferencing, secure email, and digital signatures—to enable auditors to communicate remotely with taxpayers or their representatives.

“[O]ne of the tools that we’ve been able to use within the last 2 years due to COVID[-19] [is] email to receive documentation from the taxpayers, [their representatives], and from third-party contacts such as banks to receive summons information and just being able to receive documentation electronically... [It] has made... my audit work more efficient, instead of receiving stacks and stacks of paper,... so it’s a lot easier to communicate and to speed up the audit.”

Some participants described changes they would like to see to allow them to more effectively communicate with taxpayers, such as a comprehensive portal that would facilitate document sharing and communication with taxpayers and their representatives.

- **Procedures for auditing related entities.** In discussing this challenge, some participants said it was challenging to review the many related entities associated with HI/HW returns without opening audits of those entities. Without opening an audit of a related entity, auditors only have limited information and are unable to ask the taxpayer certain questions.

“We have to be very mindful as to what we ask... regarding some of their [pass]-through entities, because just us asking a question can constitute an audit that we may not even have resources to do.”

Some participants said that procedures for auditing partnerships—a type of related entity—instituted after the passage of the Bipartisan Budget Act of 2015 were new, intimidating, and administratively burdensome.³ For example, some participants said the new procedures for auditing

³Pub. L. No. 114-74 § 1101, 129 Stat. 584, 625–638 (2015), *codified at* 26 U.S.C. §§ 6221–6223, 6225–6227, 6231–6235, 6241.

partnerships require them to get a referral for a tax computation specialist, a burdensome and time-consuming process.

- **Obtaining help from specialists.** In discussing this challenge, some participants said that requesting a specialist can be burdensome, requests are not always fulfilled, and responses are not always helpful. For example, some auditors said they can no longer call a specialist to ask a quick question, but instead need to submit written requests.

“I think my challenge is back in the old days we used to be able to have pretty good success picking up the phone and having a conversation with a [specialist] on an issue. And now we’ve got a system to where you have to put in a request. And so you have to basically take the time to write up a page or two to explain the issue.... [T]here are times where we just need to be able to have a conversation to bounce some ideas.”

Some participants said that they have difficulty accessing engineers, attorneys, economists, and tax computation specialists which delays closing the audit. Some participants described helpful IRS actions in providing specialist assistance, such as IRS organizing periodic calls for information sharing between auditors and specialists.

- **IRS research tools and data.** Some participants described helpful actions that IRS has taken to improve the tools that auditors use to research tax returns and to improve the data available to auditors. For example, a participant noted IRS has expanded access to these tools to make them available to more auditors. Some participants described how they would like to see IRS research tools be updated, such as by incorporating more up-to-date information on taxpayer bank account information. Some auditors said that the Knowledge Management database on IRS’s intranet is difficult to navigate. Some participants said they lose login access to the tools because they do not frequently work HI/HW audits. According to one auditor,

“I thought [the IRS research tools] are pretty good. The only complaint I would have is... they... take away our access when we don’t use it for whatever days. Because you know, once we get on a case, we’ll work on it. We don’t need to have access it... again. So... I have to put something on my calendar... to sign in, otherwise I will lose access to those application.... [M]aybe make the time frame a little longer.”

Appendix V: Comments from the Internal Revenue Service

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DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

December 15, 2023

James R. McTigue, Jr
Director, Tax Policy and Administration, Strategic Issues
United States Government Accountability Office
Washington, DC 20548

Dear Mr. McTigue, Jr:

Thank you for the opportunity to review GAO's draft report entitled, *TAX COMPLIANCE: Opportunities Exist to Improve IRS High-Income/High-Wealth Audits (GAO-24-106112)*.

In August 2022, Congress enacted the Inflation Reduction Act (IRA), giving the Internal Revenue Service (IRS) a historic opportunity to transform tax administration through improved taxpayer service and expanded compliance efforts. In April 2023, the IRS released the IRA Strategic Operating Plan (SOP) providing a vision for the future of Federal tax administration – a vision that includes new capabilities, including specialized skills to understand and address the complex filings of high income taxpayers and large corporations and partnerships so Americans have confidence that all taxpayers are doing their part to meet their responsibilities under our tax laws. This Plan identifies the highest priority opportunities to deliver transformational change for taxpayers. Hundreds of IRS employees are serving on initiative and project teams to accomplish this Plan.

The efforts already underway to accomplish the Strategic Operating Plan align with GAO's recommendations to improve high income and high wealth audits. Specifically, objective 3 of the Strategic Operating Plan focuses expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance to address the tax gap. Through implementing the seven initiatives within this objective, we are: increasing compliance coverage in areas with complex structures and issues; improving enforcement and risk identification through enhanced use of data analytics and technology; and increasing the expertise and capacity of our Exam operations to examine highly complex returns and issues more effectively. Households earning \$400,000 or less and small businesses will not see audit rates increase relative to historical levels.

The IRS is also hiring across the business operating divisions and investing in training new and existing employees as a well-trained workforce is fundamental to the agency's ability to fairly enforce tax laws. The Strategic Operating Plan contains several initiatives and projects which focus on providing high quality training for new hires and existing employees that equips employees with the skills to succeed while remaining flexible enough to meet individual employees' needs. Our goal is to provide a tailored training

Appendix V: Comments from the Internal Revenue Service

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program for the employee's professional development complementing both their existing knowledge, skills, and professional experience as well as the specific work that they will perform.

The Inflation Reduction Act creates a major opportunity to significantly improve the way we serve the public. GAO's insights and recommendations in this report on how the IRS can improve examinations of high income and high wealth taxpayers will help inform our ongoing efforts to accomplish the IRA Strategic Operating Plan's focus on expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance.

Responses to your specific recommendations are enclosed. If you have any questions, please contact me or Rich Tierney, Director, Examination, Small Business/Self-Employed Division.

Sincerely,

Douglas W. Odonnell

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Odonnell
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Douglas W. O'Donnell
Deputy Commissioner for Services and Enforcement

Enclosure

Enclosure

GAO Recommendations and IRS Responses to GAO Draft Report
TAX COMPLIANCE: Opportunities Exist to Improve IRS High-Income/High-Wealth Audits
(GAO-24-106112)

RECOMMENDATION #1:

The Commissioner of Internal Revenue should assess whether IRS's research data on HI/HW returns have sufficient coverage and quality to understand the complexity and compliance related to HI/HW returns.

COMMENT:

We agree with this recommendation. Improving enforcement through better use of data analytics aligns with the work we already have in progress within objective 3 of the Strategic Operating Plan. Harnessing data analytics to select compliance cases predicted to be at risk of noncompliance will help reduce unneeded taxpayer contacts from the IRS and give us a better understanding of the filing profile of the HI/HW taxpayer.

RECOMMENDATION #2:

Based on an assessment of the coverage and quality of HI/HW tax return research data, the Commissioner of Internal Revenue should take steps to improve data, if needed, to better understand the complexity and compliance related to HI/HW tax returns.

COMMENT:

We agree and will assess relevant data and make changes as needed to improve data analytics designed to identify cases for high risk of noncompliance.

RECOMMENDATION #3:

The Commissioner of Internal Revenue should develop evaluation plans that include relevant evaluation questions and appropriate evaluation designs to evaluate the effectiveness of IRS's models for selecting HI/HW returns for audit.

COMMENT:

We agree with this recommendation. Evaluating the effectiveness of IRS models for addressing HI/HW returns aligns with the work already underway to implement the Strategic Operating Plan.

RECOMMENDATION #4:

The Commissioner of Internal Revenue should use its evaluation plans to evaluate the effectiveness of IRS's models for selecting HI/HW returns for audit.

COMMENT:

We agree with this recommendation. Evaluating the effectiveness of IRS models for addressing HI/HW returns aligns with the work already underway to implement the Strategic Operating Plan.

RECOMMENDATION #5:

The Commissioner of Internal Revenue should develop a mechanism for consistently collecting and using feedback from audit staff.

COMMENT:

We agree and will enhance our current efforts by creating a more formalized structure to help ensure feedback from audit staff is received by the appropriate functions.

RECOMMENDATION #6:

The Commissioner of Internal Revenue should assess IRS's current and future hiring and training needs for HI/HW auditing, including the number of staff and their skills.

COMMENT:

We agree. Through careful Service-wide coordination and planning, the IRS is increasing our hiring and training efforts of individuals who possess the skill and potential to work these more complicated cases. The Human Capital Office is increasing its own staffing and other resources to expand hiring capacity and enable all hiring as it is requested by IRS business units.

RECOMMENDATION #7:

The Commissioner of Internal Revenue should develop and implement a strategy for hiring and training staff to meet IRS's needs for HI/HW auditing.

COMMENT:

We agree with this recommendation. Hiring new employees and retaining current employees is a critical component of the IRS's plans to implement the Inflation Reduction Act. Consistent with the Strategic Operating Plan, the IRS is developing a comprehensive plan to train the new hires and existing employees who will examine high-income taxpayers. Several Plan initiatives and projects focus on providing high-quality training for new hires and existing employees that is robust enough to equip employees with the skills to succeed while remaining flexible enough to meet individual employees' needs. As we continue to transform the IRS's training programs, we will

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create and design a curriculum for all IRS revenue agents whose job duties include examining high-income taxpayers that builds upon our existing experience and extensive knowledge base in this area.

RECOMMENDATION #8:

The Commissioner of Internal Revenue should centralize IRS's management of HI/HW audit efforts and responsibilities. This centralization of management could be implemented as part of IRS's effort to redesign its compliance organization.

COMMENT:

We partially agree with this recommendation. The IRS will centralize examination planning and tracking of HI/HW audits through the enterprise-wide examination plan beginning in FY24. This effort will afford the IRS better management of the audit efforts and responsibilities.

Accessible Text for Appendix V: Comments from the Internal Revenue Service

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Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue, Jr., 202-512-6806, mctiguej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Tom Short (Assistant Director), Elizabeth Fan (Analyst-in-Charge), Jesse Mitchell, Andrew Olson, and Dylan Stagner made key contributions to this report. Also contributing to this report were John Bornmann, Jackie Chapin, Kirsten Lauber, Andrew J. Stephens, Peter Verchinski, and Alicia White.

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