

Tax scrutiny: Should clients worry about the IRS's bigger budget?



A major portion of the \$80 billion scheduled to be invested in Internal Revenue Service upgrades is earmarked to “increase tax compliance among wealthy taxpayers and businesses,” according to the [IRS's plan](#). Indeed, the IRS is investing upwards of \$47 billion toward enforcement efforts, an amount that towers over the next-largest item on its spending plan, which is just over \$12 billion slated for technology enhancements.

Little doubt remains that your high income-earning clients can expect more oversight and less room for error. This reality is of concern to attorneys, accountants, and financial advisors who are responsible for helping their clients adhere to the tax laws with integrity.

If you'd like to dig into the details about the IRS's newly-secured tens of billions of dollars, you can peruse the agency's [Inflation Reduction Act Strategic Operating Plan](#) submitted April 5, 2023 by IRS Commissioner Daniel I. Werfel. The 150-page plan covering 2023 - 2031 speaks primarily to five areas of priority spending:

- \$47.4 billion to increase tax compliance among wealthy taxpayers and businesses.
- \$12.4 billion for technology enhancements.
- \$8.2 billion to recruit and retain a highly skilled, diverse workforce.
- \$7.5 billion targeting taxpayer service improvements.
- \$3.9 billion for cybersecurity.

Significant operational efficiencies are anticipated, and the heightened compliance efforts will generally apply to taxpayers making more than \$400,000 annually. What's [raising eyebrows](#) is that high-income earners and thus, donors to charity—and the financial professionals who serve them—should likely expect more in terms of attention, oversight, and audits.

According to the plan, “segments of taxpayers with complex issues and complex returns where audit rates are minimal today, such as those related to large partnerships, large corporations, and high-income and high-wealth individuals,” will

be areas of focus.

The new-hire ramp up and technology implementation will take some time, per experts, with some believing that 2022 tax returns will be less subject to scrutiny than those in future years. But, the agency also has a three-year window to initiate an audit, giving it time to look back.

Of specific importance to the charitable community is Objective 3, Initiative 4 (PDF page 66 of the [plan](#)), which states: “The IRS will increase enforcement activities to help ensure tax compliance of high-income and high-wealth individuals.”

Increasing right along with the enhanced scrutiny is the need for solid charitable planning advice to assist your high net-worth clients. The community foundation is an ideal partner, offering secure and efficient vehicles for charitable giving—including the precise tax documentation and compliance that the IRS expects.

Indeed, a silver lining for advisors and their clients who work with the community foundation may be that the added potential IRS oversight plays to the foundation’s strengths. By offering donors fully-vetted grantee organizations, plus gift execution, documentation and compliance services, your charitable clients who’ve established donor-advised, field-of-interest, designated, or other funds at the community foundation can rest more easily knowing that their philanthropy is being handled as intended and able to withstand questioning, whether your clients are funding their contributions with Qualified Charitable Distributions, highly-appreciated stock, or complex assets such as closely-held businesses and real estate.

We look forward to working with you and your clients as we navigate a new era of IRS scrutiny.