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Services

Federal Tax Planning
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Professional

ROBERT M. ROMASHKO
WASHINGTON:
202.378.2310
ROBERT.ROMASHKO@
HUSCHBLACKWELL.COM

IRS Moves Forward with Enforcement Priorities Despite Funding Cuts

On June 8 and 9, several Internal Revenue Service (IRS) officials spoke at a conference sponsored by the New York University School of Professional Studies and addressed the IRS's plans for tax enforcement over the next few years.

Douglas O'Donnell, IRS Deputy Commissioner for Services and Enforcement, discussed the IRS's plans to ramp up enforcement in light of increased funding in the Inflation Reduction Act and the subsequent rescission of about a quarter of that funding in the Fiscal Responsibility Act of 2023. Some taxpayers have speculated that the loss of approximately \$20 billion in funding for tax enforcement would curtail the IRS's plans to increase audits, but O'Donnell indicated it would not. He noted that the IRS was still "working to figure out what this \$20 billion cut means" but remarked that he thought "our original plan for the first five years is going to hold." As O'Donnell reminded attendees, the remainder is "\$60 billion we did not have a year ago."

Speaking on the same panels, the Acting Commissioner of the IRS's Large Business and International Division, Holly Paz, and the Commissioner for the IRS's Small Business and Self-Employed Division, Lia Colbert, identified what are likely to be some of the IRS's enforcement priorities given the increased funding. In particular, they identified that the agency would be looking more into issues related to transfer pricing, complicated partnership structures, and high-net-worth individuals.

In particular, Paz noted that the IRS is looking to increase "coverage" of high-net-worth individuals, who she likened to holding companies, indicating that general audits of these individuals should begin with the individual's tax return and then expand out to numerous related companies controlled or owned by the taxpayer.

Taxpayers, especially those with issues identified above, should be on guard for the increased likelihood of enforcement and may want to consider steps to prepare for audit or avoid contentious tax positions on their returns.

Contact us

If you have questions regarding IRS policy and enforcement, contact Robert Romashko or a member of Husch Blackwell's Tax group.