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

January 2024

TAX COMPLIANCE

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

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

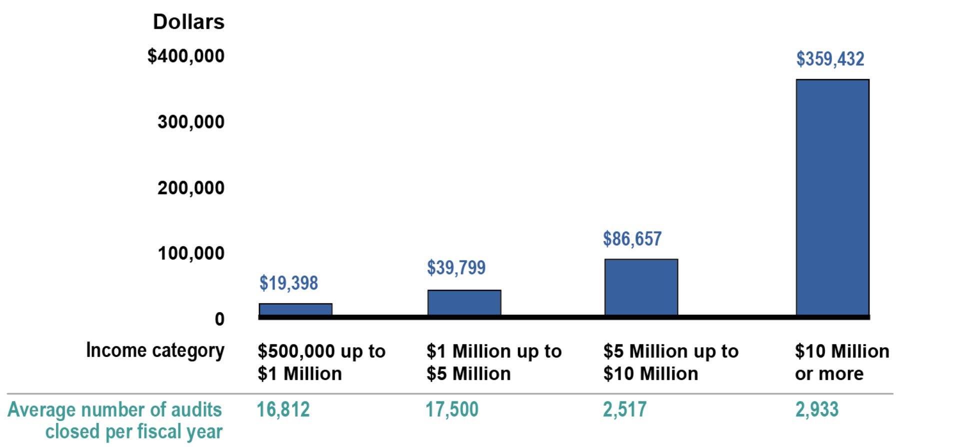
GAO is making eight recommendations to improve IRS's efforts to audit high-income/high-wealth individuals, including taking steps to assess its research efforts, audit selection models, and auditor hiring and training. GAO also recommends that IRS centralize the management of its high-income/high-wealth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

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

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.