

Leila Carney Speaks to Tax Notes on IRS Funding Targeting Enforcement

07.17.2023

Tax Notes

In this installment of the Star Forum, experts lay out concerns and hopes for the influx of funding granted to the IRS via the Inflation Reduction Act.

...

Leila D. Carney, Caplin & Drysdale

With the national debt once again distracting from the nation's substantive goals, funding the IRS is a practical step toward facilitating congressional attempts to balance the budget. In April the IRS released its strategic operating plan regarding its intent to direct \$45 billion to IRS enforcement, with a stated goal of encouraging voluntary taxpayer compliance.³ It estimated that a 1 percentage point increase in voluntary compliance (for example, a compliance increase from 85 to 86 percent) would generate the similarly considerable sum of \$40 billion in payments.⁴ This prospect is supported by recent empirical scholarship validating the theory that enforcement encourages voluntary compliance.⁵

That said, the recent "campaigns" of "coordinated issues" (which are no doubt a permanent feature of the enforcement landscape) target taxpayers based on one characteristic of their returns and leave taxpayers feeling capriciously swept up and labeled guilty until proven innocent. In order to preserve the potential of enforcement to encourage voluntary compliance, new and current enforcement personnel should receive a breadth of training on examining the specific facts of each taxpayer's circumstances to differentiate between the varied legal and factual bases for return positions that have been caught up in the same net. Enforcement surely means more IRS form letters and audit tool-kits, but it should also mean more training in applying these tools for outcomes that are nuanced, fair, and accurate.

In addition, I agree with Chye-Ching that using the funding to publish guidance will amplify the benefits of funding other areas at the IRS, like enforcement. From a controversy perspective, audits and administrative appeals can be resolved more efficiently when clear guidance is available. That allows a controversy's outcome to be governed by a taxpayer's unique facts, rather than being subsumed by a muddy legal landscape. Guidance serves as content for more in-depth, technical training of revenue agents and increases the likelihood of fair and accurate results at earlier stages of the controversy. The resulting synergy between funding guidance and enforcement could further boost voluntary compliance.

For the full article, please visit *Tax Notes'* website (subscription required).

³ IRS, "Inflation Reduction Act Strategic Operating Plan FY2023-2031," Pub. 3744, at 64 and 129 (Apr. 5, 2023).

⁴ IRS, "IRS Updates Tax Gap Estimates; New Data Points the Way Toward Enhancing Taxpayer Service, Compliance Efforts," IR-2022-192 (Oct. 28, 2022).

⁵ Leandra Lederman, “Does Enforcement Reduce Voluntary Tax Compliance?” 2018(3) *BYUL Rev.* 623 (2019).

Attorneys

Leila D. Carney

Related Practices/Industries

Tax Disputes & Tax Litigation

