

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers**

August 31, 2023

Report Number: 2023-30-054

# HIGHLIGHTS: The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers

Final Audit Report issued on August 31, 2023

Report Number 2023-30-054

## Why TIGTA Did This Audit

In August 2022, the Inflation Reduction Act of 2022 (IRA) was enacted providing almost \$80 billion (with \$45.6 billion for enforcement activities) to the IRS over a decade. This funding supplements the regular annual appropriation.

This review was originally planned in response to Fiscal Year 2022 enforcement-related funding and the July 2021 House of Representatives Committee on Appropriations request that TIGTA review the IRS's strategy to recruit and train employees to conduct audits of high-income taxpayers and was expanded to encompass the IRA's significant enforcement funding.

In this report, TIGTA assessed the IRS's strategy to train employees hired specifically to conduct audits of high earners and large businesses that underreport income. A separate report on the IRS's hiring strategy was issued in June 2023.

## Impact on Tax Administration

Noncompliant taxpayers can undermine public confidence in the fairness and integrity of the Federal tax system. The IRS estimated Tax Years 2014 through 2016 annual gross Tax Gap to be \$496 billion. Individual underreporting alone represented more than one-half (56 percent) of the gross Tax Gap.

An ineffective training strategy for new hires could reduce the impact of the IRS's compliance efforts for individual high-income earners and large businesses that underreport income.

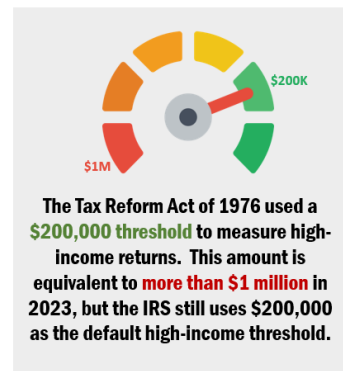
## What TIGTA Found

In August 2022, the Secretary of the Treasury stated that IRA funding was intended in part to increase examination of high-income taxpayers. The Secretary also directed that no additional resources, including any new hires, shall be used to increase the share of small businesses or households below the \$400,000 threshold that are audited relative to historical levels.

The Large Business and International (LB&I) Division has expertise in training revenue agents on examining high-income taxpayers. However, the IRS's efforts to train new hires do not appear to be fully leveraging this expertise. The IRS treats this training as specialized and only offers it when necessary for employees auditing in this specialized area. Commensurate with the new IRA funding, the IRS should revise its training paradigm and expose new hires to the types of issues associated with high-income taxpayer returns.

The Small Business/Self-Employed Division's Fiscal Year 2023 Examination Plan showed no significant increase in the number of high-income individual audits. Additionally, the LB&I Division's resource allocation plan is not detailed enough for TIGTA to assess the IRS's intended efforts to examine high-income individuals with the increased enforcement funding.

The IRS does not have a unified or updated definition for individual high-income taxpayers. The Tax Reform Act of 1976 required annual publication of data on individual income tax returns reporting income of \$200,000 or more. The current examination activity code schema still uses \$200,000 as the main threshold. The IRS's Inflation Reduction Act Strategic Operating Plan sets forth leveraging data analytics to improve the IRS's understanding of the tax filings of high-wealth individuals and to address potential noncompliance. Consequently, the IRS needs to update its high-income taxpayer definition to better identify and track examination results and manage examination priorities.



## What TIGTA Recommended

TIGTA made six recommendations, including that the IRS leverage the LB&I Division's extensive knowledge base by embracing its current high-income individual training content and ensure that examination plans follow the Secretary of Treasury's Directive to prioritize coverage of individual high-income earners over \$400,000. The IRS agreed or partially agreed with five of the six recommendations and disagreed with one recommendation.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

**U.S. DEPARTMENT OF THE TREASURY**  
**WASHINGTON, D.C. 20024**

August 31, 2023

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

*Heather Hill*

**FROM:** Heather M. Hill  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers (Audit # 202230040)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) strategy to train employees hired specifically to conduct audits of high earners and large businesses that underreport income. We are performing this review as requested by the House of Representatives Committee on Appropriations. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Increasing Domestic and International Tax Compliance and Enforcement*.

Management's complete response to the draft report is included as Appendix VI. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

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## Background

In August 2022, the Inflation Reduction Act of 2022 (IRA) was enacted providing almost \$80 billion (in addition to other funds made available) to the Internal Revenue Service (IRS) over a decade.<sup>1</sup> This funding supplements the IRS's annual appropriation and funds various priorities including enforcement efforts. Congress allocated \$45.6 billion of IRA funding towards enforcement activities.

### Inflation Reduction Act of 2022



Congress allocated  
**\$45.6 billion** of  
IRA funding towards  
enforcement activities.

As the Secretary of the Treasury (hereafter referred to as the Treasury Secretary) wrote to the IRS Commissioner in August of 2022, IRA enforcement funding was intended in part to increase examinations of high-income taxpayers. The Treasury Secretary stated:

*Specifically, I direct that any additional resources—including any new personnel or auditors that are hired—shall not be used to increase the share of small business or households below the \$400,000 threshold that are audited relative to historical levels. This means that ... small business or households earning \$400,000 per year or less will not see an increase in the chances that they are audited.*

*Instead, enforcement resources will focus on high-end noncompliance. There, sustained, multiyear funding is so critical to the agency's ability to make the investments needed to pursue a robust attack on the tax gap by targeting crucial challenges, like large corporations, high-net-worth individuals and complex pass-throughs, where today the IRS has resources to initiate just 7,500 audits annually out of more than 4 million returns received.<sup>2</sup>*

In July 2021, prior to the IRA's enactment, the House of Representatives Committee on Appropriations issued a report to explain the Financial Services and General Government Appropriation Bill for Fiscal Year (FY) 2022.<sup>3</sup> The report stated the following:

*The Committee encourages the IRS to prioritize audits of high-income individuals and large corporations that have neglected to pay their full tax obligation. Additionally, no later than 60 days after enactment of this Act, the IRS is directed to publish distributional estimates of the tax gap, showing which income groups are most responsible for revenue losses.<sup>4</sup>*

Additionally, in the same report, the House of Representatives Committee on Appropriations directed the Treasury Inspector General for Tax Administration (TIGTA) to review the IRS's

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<sup>1</sup> IRA § 10301, Pub. L. No. 117-169 (2022).

<sup>2</sup> Correspondence, Secretary of the Treasury Janet Yellen to IRS Commissioner Charles Rettig. (Aug. 10, 2022). See Appendix III.

<sup>3</sup> See Appendix VII for a glossary of terms.

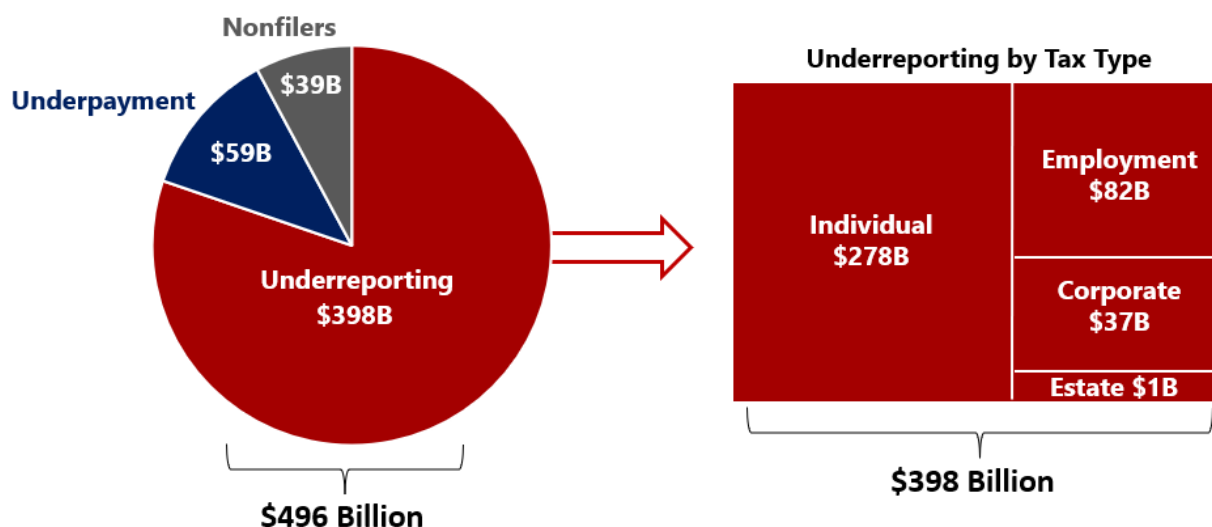
<sup>4</sup> House of Representatives, Committee on Appropriations, 117<sup>th</sup> Congress, Report on the Financial Services and General Government Appropriations Bill, 2022, Report 117-79 (July 1, 2021).

strategy to recruit and train employees to conduct audits of high-income taxpayers and large businesses that underreport income.

The Committee report did not define the income levels that constitute “high-income” for purposes of IRS enforcement efforts. The IRS has for a significant period of time defined high-income taxpayers as those earning above \$200,000. In FY 2015, TIGTA recommended that the IRS reevaluate the appropriate income thresholds for its High-Income and High-Wealth strategy.<sup>5</sup>

Noncompliant taxpayers can undermine public confidence in the fairness and integrity of the Federal tax system. Figure 1 reflects that the most significant component of the gross Tax Gap, *i.e.*, the difference between what taxpayers owe annually and what they pay voluntarily and timely – most recently estimated by the IRS to be \$496 billion annually, is estimated to be the underreporting component at \$398 billion.<sup>6</sup>

**Figure 1: Gross Annual Tax Gap Summary for Tax Years 2014 Through 2016**



*Source: Publication 1415, Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014 - 2016 (Rev. Oct. 2022).*

In terms of Tax Gap breakdown associated with underreporting, the individual filers accounted for \$278 billion (70 percent) of the out of the \$398 billion. The IRS believes that the lack of reliable and comprehensive reporting and withholding for business income received by individuals is the main reason for this finding. Business income reported on Forms 1040, *U.S. Individual Income Tax Return*, is a much lower visibility income source because it is not often subject to the same information reporting and withholding requirements that exist for salary and wage income.<sup>7</sup>

<sup>5</sup> TIGTA, Report No. 2015-30-078, *Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers* (Sept. 2015).

<sup>6</sup> Publication 1415, *Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2014-2016* (Rev. Oct. 2022).

<sup>7</sup> Testimony of Barry Johnson, Acting Chief, Research and Analytics Senate Finance Committee, Subcommittee on Taxation and IRS Oversight, Hearing on Offshore Tax Evasion, May 11, 2021.

The IRS projected the annual gross Tax Gap for Tax Years 2017 through 2019 would increase to \$540 billion, with the underreporting component continuing to account for 80 percent of the total and individual taxpayers contributing 70 percent to the underreporting component.

In February 2020, the former Treasury Secretary voiced concerns regarding the IRS's low audit rate of high-income individual returns, *i.e.*, individual taxpayers with adjusted gross income above \$10 million, and directed the IRS to audit a minimum of at least 8 percent of all such returns filed each year (see Appendix II).

An ineffective training strategy of new hires could reduce the impact of the IRS's compliance efforts for individual high-income earners and large businesses that underreport income. The scope of this review focused primarily on the training of new employees hired as a result of the FY 2022 Appropriation and IRA funding. The results from a separate TIGTA audit on the IRS's hiring strategy was presented in another report.<sup>8</sup>

## **Results of Review**

### **The IRS Needs to Leverage Its High-Income Taxpayer Expertise for Training Efforts**

The IRS has knowledge in the methods that high-income taxpayers use to evade taxes. The Large Business and International (LB&I) Division has expertise in training revenue agents on these methods; however, the IRS's efforts to train new hires for the LB&I and Small Business/Self-Employed (SB/SE) Divisions do not appear to fully leverage this expertise. The IRS treats this training as specialized, such that it is offered only when necessary for employees auditing in this specialized area. As the IRS prioritizes examinations of high-income taxpayers with IRA funding, it should leverage the specialized training and provide it to an expanded pool of revenue agents. In other words, the IRS's approach to training should be commensurate with the significant enforcement funding and the purposes for which it was provided. TIGTA reviewed LB&I Division's High-Income Initiative (HII) training information as part of this review.

In FY 2010, when the LB&I Division was still organized by "industry," the IRS established the Global High Wealth (GHW) Industry to meet its High-Income and High-Wealth Strategy responsibilities. The GHW Industry took a more comprehensive approach to address the high-income taxpayer population by looking beyond a taxpayer's individual income tax return to include the taxpayer's complete financial picture, including related business entities (hereafter referred to as an "enterprise case"). A GHW enterprise case consists of a key case, generally the taxpayer's Form 1040 and income tax returns for related entities, *e.g.*, S corporation, partnerships, C corporations, *etc.*, which the taxpayer has a controlling interest, and a significant compliance risk may exist.

According to the *Standards for Internal Control in the Federal Government*, only when the right personnel for the job are on board and are provided the right training is an organization's operational success possible. Specifically, under the Control Activities principle, training is

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<sup>8</sup> TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could be Improved* (June 2023).

aimed at developing and retaining employee knowledge, skills, and abilities to meet changing organizational needs.<sup>9</sup>

### **IRS University (IRSU) is not ready to fully function as the IRS intended**

The Taxpayer First Act (TFA) enacted in 2019 required the IRS to provide Congress a comprehensive training strategy for employees.<sup>10</sup> Specifically, within one year of TFA enactment, the IRS was to submit to Congress a written report on its training strategy, including a plan to streamline current training processes and improve technology-based training, and a proposal to ensure consistency in skill development and employee evaluation throughout the IRS.



In its report to Congress, the IRS stated that one of its strategic components will be creating the IRSU to serve as a centralized learning function to improve training and encourage collaboration across the IRS. The IRS was not appropriated additional funding with the enactment of the TFA; therefore, in FY 2022, the IRS had to move some funds to support the IRSU. The IRS states that FY 2023 is the first year that the IRS has been able to allocate funds to the IRSU. We asked the IRS what the origins of the “university” model were and whether other Federal agencies had experience with it. The IRS explained that the IRSU concept stemmed from the IRS’s research, which included interviews of learning professionals from different Government and private entities, and consideration of case studies. Based on the research and data analyzed, the IRS’s Comprehensive Training Strategy team developed the concept for a centralized learning model, which was supported by both the IRS Human Capital Officer and the IRS Commissioner. IRS management stated that their goal is for the IRSU to build on and unify existing training and development “communities” and organize training curricula around structured yet flexible career paths.<sup>11</sup> The TFA Report to Congress devoted three pages of general information about its plans for an IRSU, including:

- Requirements Planning (including needs assessments to identify employee skill gaps).
- Multiyear Training (including a multiyear training plan).

<sup>9</sup> Government Accountability Office, GAO-14-704G, *Standards for Internal Control in the Federal Government* (Sept. 2014).

<sup>10</sup> Public Law 116-25 (July 2019).

<sup>11</sup> Taxpayer First Act Report to Congress (Jan. 2021).



- Leadership Development (involving centralized leadership and management development).
- Strategic Sourcing (including vendor-provided learning platforms).
- Blended Learning Model (including on-site and virtual learning environments).
- Expanded Learning Management System (including a centralized hub for training administration).
- Ongoing Training Evaluation (including the use of an external third-party program to evaluate training).

These general elements appear to satisfy the centralization and consistency elements of the TFA’s training directives, though it is not apparent that the “university” model is necessary to accomplish Congress’s objectives. It has been nearly four years since the TFA’s enactment; however, as of May 2023, the IRS has not finalized the IRSU’s organizational structure. Although TIGTA was informed that IRSU’s initial course offerings would take place in April of 2023, upon following up on the progress of the IRSU, we learned that until the organizational change is implemented and the IRSU is launched enterprise-wide in FY 2024, the implementation of IRSU training material for examination new hires will be implemented in phases.

The IRSU and IRS business units will partner to update and revise existing IRS curriculum and create new content over the course of FY 2023. The IRSU does not yet have course offerings or even a course-offering guide for revenue agents or any training materials that cover examining high-income individuals. According to the IRS, its training strategy and IRSU progress have been limited by funding constraints. The recently released IRS IRA Strategic Operating Plan states that the IRSU will be launched enterprise-wide in FY 2024.<sup>12</sup> While this Strategic Operating Plan outlines how the IRS will use IRA funds, there are no other details or deliverables regarding the IRSU. In fact, the more than three years old TFA Report to Congress had much more detail about the IRSU than was provided in the IRA Strategic Operating Plan, in which there were two limited references to the IRSU.

IRS management informed TIGTA that the IRSU will use a competency-based curriculum, which will be designed by aligning competencies with critical job elements. As of February 2023, the IRSU identified 14 mission-critical occupation job series, including the revenue agent job series. For each of the 14 mission-critical occupation job series, the IRSU created the following:

- A competency model.
- A competency assessment.
- A career path guide.

We reviewed these documents for the revenue agent position and found the core competency elements are largely general and not tax-specific. For example, the elements include decision-making, interpersonal skills, and written communications. Appendix V details the IRSU-identified competency elements for revenue agents.

Additionally, there is no discussion of high-income taxpayer examinations within the competency elements description. The competency assessment consists of self-assessment and

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<sup>12</sup> *IRS Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031* (Apr. 2023).

immediate supervisor's assessment regarding the core competency elements. The career path guide summarizes the potential career progression.

According to IRSU management, each business operating division will provide a cadre of technical employees as IRSU instructors. Additionally, the business operating divisions will continue to own the training and provide the technical subject matter experts to develop the content.

Without any IRSU training material having been developed, TIGTA was unable to assess if training under the IRSU umbrella will be better than the traditional business operation division training that the IRS is still using.

### **Business operating divisions' new-hire training does not address high-income taxpayers**

High-income taxpayers are frequently involved in complex entities and financial arrangements, which can increase the risk of tax avoidance and evasion of the tax laws.<sup>13</sup> The IRS needs to hire and train employees as soon as practical to achieve the congressional intent to increase examinations of high-income taxpayers using IRA enforcement funds.

The Treasury Secretary's August 2022 memorandum to the IRS Commissioner stated that funding from the IRA will allow the IRS to "... invest in training employees so they can identify the most complex evasion schemes by those at the top."<sup>14</sup>

Revenue agents in the SB/SE and LB&I Divisions play an important role in examining high-income taxpayers. However, the LB&I and SB/SE Divisions' current training effort for revenue agent new hires does not appear to be align with the Treasury Secretary's August 2022 memorandum to the IRS Commissioner. The new-hire training does not directly address high-income taxpayer examination efforts.<sup>15</sup> These two operating divisions use the same training curriculum and processes as they have in the past several years. However, according to the IRS, in FY 2023, there will be a significant shift towards assigning more high-income taxpayer returns to revenue agents.

Figure 2 summarizes IRS revenue agents' hiring during FY 2021 through March 2023 for the LB&I and SB/SE Divisions.

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<sup>13</sup> Tax avoidance refers to minimizing tax liability through lawful financial planning. Tax evasion refers to illegal actions to reduce the tax amount payable by fraudulent means.

<sup>14</sup> Correspondence, Secretary of Treasury Janet Yellen to IRS Commissioner Charles Rettig. (Aug. 17, 2022). See Appendix IV.

<sup>15</sup> According to the SB/SE Division, the Form 1040 training returns assigned to revenue agents hired after February 2023 will all be high earners; therefore, students will be exposed to the types of issues that apply to high-income taxpayer returns.

**Figure 2: LB&I and SB/SE Divisions’  
Revenue Agent Hiring in FYs 2021 Through March 2023<sup>16</sup>**

General Schedule (GS) Grade	LB&I Division			SB/SE Division		
	FY 2021	FY 2022	FY 2023	FY 2021	FY 2022	FY 2023
Low (GS-5/7/9)	59	34	0	240	293	19
Mid (GS-11/12)	0	0	0	258	167	0
High (GS-13/14)	254	80	15	106	0	0
<b>Totals Revenue Agent New Hires</b>	<b>313</b>	<b>114</b>	<b>15</b>	<b>604</b>	<b>460</b>	<b>19</b>
Partially completed planned new-hire training curriculum at the end of March 2023	59	34	15	0	401	19
Fully completed planned new-hire training curriculum at the end of March 2023	254	80	0	604	59	0



Source: LB&I and SB/SE Divisions’ management.

At the end of March 2023, all the SB/SE Division’s revenue agents hired during FY 2021 had completed its new-hire training curriculum, while most revenue agents hired in FYs 2022 and 2023 had partially completed its new-hire training curriculum. Whereas, in the LB&I Division, most of the FYs 2021 and 2022 revenue agent new-hires had fully completed the training, with the remaining new hires partially completing the training.

According to the SB/SE Division, all revenue agent new hires attend the four-class curriculum shown in Figure 3 and receive integrated on-the-job training by working training tax returns to practice skills taught during the classes. Figure 3 summarizes the four-class curriculum. We reviewed the SB/SE Division-provided training materials and found no specific discussions or sections dedicated to high-income taxpayers. However, according to the SB/SE Division, in addition to the four-class curriculum, revenue agents may obtain other self-study learning depending on their needs and examination cases assigned.

<sup>16</sup> FY 2023 data are through March 31, 2023.

**Figure 3: SB/SE Division Revenue Agent New-Hire Training Classes**



 Class	 Description
<b>Revenue Agent Basic 1040 Classroom 1</b>	Teaches basic technical material associated with auditing Form 1040 returns.
<b>Revenue Agent Basic 1040 Classroom 2</b>	Addresses advanced tax and examination issues such as internal controls, capital expenditures, depreciation, fraud, passive activity losses, net operating losses, like-kind exchanges, and alternative minimum tax.
<b>Revenue Agent Corporate</b>	Instructs tax law and auditing techniques for examination of Form 1120, <i>U.S. Corporation Income Tax Return</i> .
<b>Revenue Agent Pass-Through Entities</b>	Instructs tax law and auditing techniques for the examination of Form 1120-S, <i>U.S. Income Tax Return for an S Corporation</i> , and Form 1065, <i>U.S. Return of Partnership Income</i> .

Source: SB/SE Division management.

The LB&I Division’s training for revenue agent new hires, regardless of grade, generally includes an orientation and two audit techniques classes. Figure 4 summarizes LB&I Division training. We reviewed LB&I Division training topics and found no specific discussions or sections dedicated to high-income taxpayers. In addition to the classes shown in Figure 4, the revenue agents may obtain additional blended learning, *i.e.*, virtual, in-person, and/or self-study, on other topics depending on their needs and examination cases assigned.

According to the IRS, while the LB&I Division’s general training provided to new-hire revenue agents does not address high-income taxpayers, revenue agents who will work these cases are provided additional training courses.

**Figure 4: LB&I Division Revenue Agent New-Hire Training Classes**

 Class	 Description
<b>New Hire Orientation</b>	Provides an overview of the LB&I Division and how it fits in the IRS organization, introduces the LB&I Division’s workstreams and examination process and examination resources available.
<b>Audit Techniques I</b>	Teaches skills on issues associated with specific topics such as: asset, inventory, net operating loss deductions, accounting method changes, claims, revenue and expense, and risk assessment.
<b>Audit Techniques II</b>	Teaches collaboration within the LB&I Division for examinations, preparing the examination plan, enforcing information document requests, issue resolution, notice of proposed adjustment preparation, and topics such as cross border activities and transfer pricing.

Source: LB&I Division management.

### Factors impeding revenue agent hiring

TIGTA reported previously that in February 2022, the Office of Personnel Management (OPM) approved Direct-Hire Authority for a total of 10,000 employees for the Wage and Investment Division’s Submission Processing and Accounts Management functions to assist in reducing the

**The IRS Needs to Leverage the Most Effective Training  
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tax return filing backlog.<sup>17</sup> As a result of the IRS Human Capital Office devoting resources to support the hiring surge, it prevented the LB&I and SB/SE Divisions from hiring more enforcement employees to increase audits of high earners and to replace employees lost through normal attrition. Figure 5 details FY 2021 through March 2023 revenue agent attrition rates for the LB&I and SB/SE Divisions.

**Figure 5: LB&I and SB/SE Divisions’  
Revenue Agent Attrition in FYs 2021 Through March 2023<sup>18</sup>**

	Number of Revenue Agents					
	FY 2021		FY 2022		FY 2023	
	GS-13 and Below	GS-14	GS-13 and Below	GS-14	GS-13 and Below	GS-14
LB&I Division	146	69	164	78	66	31
SB/SE Division	346	15	486	27	198	7

*Source: IRS Human Capital Data Management Technology Office.*

Furthermore, according to the IRS, its FY 2023 revenue agent hiring efforts have been impacted by issues identified by the OPM. The OPM conducted an evaluation of the IRS’s use of authority to noncompetitively promote employees based on accretion of duties.<sup>19</sup> The OPM review found the IRS did not follow internal policy. In August 2022, the Department of the Treasury mandated that the IRS pause hiring at the grade GS-12 level and below and extended this mandate to all revenue agents in November 2022 until the IRS resolves the OPM’s audit findings. Consequently, the IRS has been partnering with the Department of the Treasury and the OPM to address the findings. The IRS received approval to resume hiring at the grade GS-14 level and above in January 2023 and the grade GS-12 level and below in March 2023. As of end of March 2023, the SB/SE and LB&I Divisions hired 19 and 15 revenue agents, respectively. The grade

GS-13 level positions remain on hold as of May 2023. The overall hiring delays will have a significant impact on the FY 2023 revenue agent hiring effort.

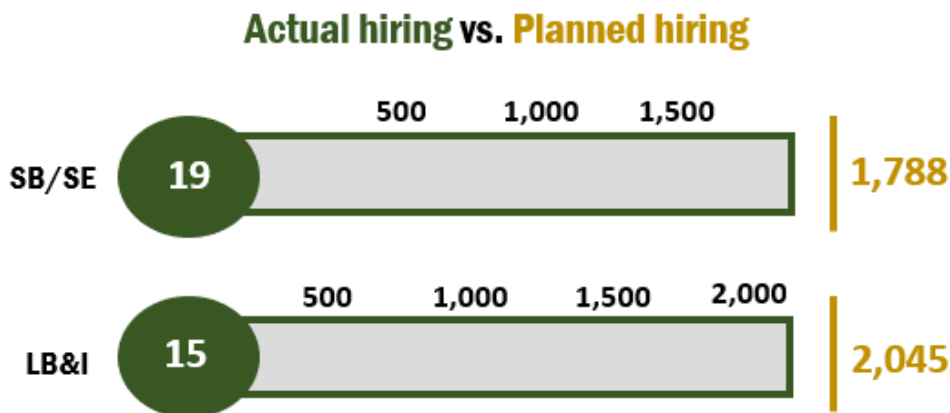
Figure 6 shows that the SB/SE and LB&I Divisions had planned to hire 1,788 and 2,045 revenue agents, respectively, during FY 2023.

<sup>17</sup> TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could be Improved* (June 2023).

<sup>18</sup> FY 2023 data are through March 31, 2023.

<sup>19</sup> OPM, *Human Capital Management Evaluation U.S. Department of the Treasury Internal Revenue Service* (Feb. 2022).

**Figure 6: LB&I and SB/SE Divisions FY 2023 Revenue Agent Hiring Progress<sup>20</sup>**



Source: IRS management.

According to the IRS’s hiring (Figure 2) and attrition (Figure 5) data, during the first half of FY 2023, the LB&I and SB/SE Divisions lost significantly more revenue agents than they hired. The LB&I Division experienced a net loss of 82 (97-15) revenue agents, while the SB/SE Division experienced a net loss of 186 (205-19) revenue agents.

Furthermore, according to the IRS, at the end of March 2023, the LB&I and SB/SE Divisions had 2,908 and 4,227 revenue agents on-roll, respectively. The revenue agents on the rolls as of March 31, 2023, in comparison to FY 2019, represent a decrease of 4.3 percent for the LB&I Division and 11.1 percent decrease for the SB/SE Division. Figure 7 details the trend in the number of revenue agents on the rolls for FYs 2019, 2020, and 2023 as of March 31, 2023.

**Figure 7: LB&I and SB/SE Divisions’ Revenue Agent Staffing Level Comparison**

Time Frame	LB&I Division	SB/SE Division
End of FY 2019	3,040	4,753
End of FY 2020	3,062	4,215
FY 2023 (as of March 31, 2023)	2,908	4,227
Percentage Change (decrease) from FY 2019 to FY 2023	(4.3%)	(11.1%)

Source: IRS management.

### The IRS needs to leverage the LB&I Division’s HII training

The LB&I Division created the HII following the former Treasury Secretary’s February 2020 directive to audit a minimum of at least 8 percent of individual taxpayers with adjusted gross income above \$10 million. In the summer of 2020, the LB&I Division created a HII support team because its revenue agents traditionally focus on business entities and may not have recent experience working individual returns. The HII support team provided training and worked with

<sup>20</sup> FY 2023 actual hiring data are through March 31, 2023.

examination managers and revenue agents on case-related issues. The HII support team ended in September 2021, but the LB&I Division brought it back in May 2022 as new revenue agents started working HII cases. On another TIGTA audit, we learned that the IRS is terminating some or all of the HII that derived from the former Treasury Secretary's 2020 memorandum, *i.e.*, the component of the strategy that focused on auditing at least 8 percent of taxpayers in excess of \$10 million of annual income, in favor of another strategy in development to more broadly focus on higher income taxpayers.<sup>21</sup>

According to the LB&I Division, revenue agents at the grade GS-13 level or above could attend HII training. Revenue agents initially assigned to HII inventory were strongly encouraged, but not required, to take the training. HII training was not mandatory due to the need to achieve the directed examination coverage rate with a relatively small workforce and attrition consideration. The LB&I Division recorded the trainings provided, and the video and associated reference materials are available to all employees, regardless of division, via a virtual knowledge library.

Revenue agents who did not go through the initial HII training, as well as newly hired revenue agents, are limited to watching videos of the previously held training and doing self-study. According to the LB&I Division, revenue agents were offered one-on-one assistance and provided reference materials. The limited resources do not permit a training team on standby. Figure 8 shows the nonmandatory self-study courses recommended for revenue agents new to examining high-income individuals. There are other topics associated with high-income earners that are not part of the current HII training.

The current HII self-study approach such as watching videos is neither interactive nor engaging. The training process should require interactive training either in person or virtually to provide an engaging and interactive learning environment. The LB&I Division's current training curriculum available to new HII revenue agents provides a good start in learning how to audit high-income individuals and potential issues they may run across. As the IRS moves forward in developing training under the IRSU umbrella, we encourage it to leverage the existing HII curriculum. With the emphasis on increasing examination coverage of high-income individuals under the IRA, the IRS should teach revenue agent new hires how to audit high-income individuals and expose them to potential tax issues. The IRS Commissioner recently stated that the IRS does not have enough people with the right skill sets to assess wealthy filers.<sup>22</sup> As such, by training new hires, it would increase the number of staff with the necessary skills to examine high-income taxpayers.

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<sup>21</sup> TIGTA, Audit No. 202330020, *Auditing High-Income Taxpayers*. This review is still in progress.

<sup>22</sup> Testimony of Commissioner Werfel, House Ways and Means Committee, Hearing on Accountability and Transparency at the IRS, Apr. 27, 2023.

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**Figure 8: Self-Study Training List for the LB&I Division’s New HII Revenue Agents**

Category	Course
<b>HII Basic Training</b>	HII virtual library
	Organization charts – a picture of the enterprise approach: tools for and how to diagram a taxpayer’s related entities and span of control.
	Enterprise approach case study
	Statute of limitation on assessment
	Disclosure (Internal Revenue Code § 6103)
	Starting a Form 1040 examination – fundamental differences between auditing Forms 1120 and 1040. How to build a Form 1040 case. The HII uses a modified enterprise approach, which limits the case to the Form 1040 plus only one other related entity.
	Preliminary risk analysis, workpapers, and exam plans
	Case file content and a case walkthrough
<b>Financial Products</b>	HII financial instruments and products
<b>Common Technical Issues</b>	Form 1040 overview
	Form 1040 Schedule C, <i>Profit or Loss From Business</i>
	Form 1040 Schedule D, <i>Capital Gains and Losses</i>
	Form 1040 Schedule E, <i>Supplemental Income and Loss</i>
	Other Form 1040 issues – household employment tax
	Internal Revenue Code § 183 activities not engaged in for profit
	HII Pass-Through Issues
	Charitable Trusts
	Private foundations
	Issues involving estate and gift tax
<b>Partnership<sup>23</sup></b>	Partnership liabilities
	Partnership distributions
	Partnership disguised sales
	Partnership loss limitations
	Sale of partnership interest
<b>S Corporation<sup>24</sup></b>	Shareholder stock and debt basis
	Shareholder loss limitations
	Distributions
<b>Just-In-Time Training</b>	Business aircraft issues
	Business aircraft virtual library
	Form 965, <i>Inclusion of Deferred Foreign Income Upon Transition to Participation Exemption System</i>

Source: LB&I Division’s HII SharePoint.

<sup>23</sup> The partnership training resources website contains additional courses, which may be taken just-in-time.



## Higher grade LB&I Division revenue agent new hires are not given individual income tax return training

Our review of the LB&I Division's new-hire training curriculum found that revenue agents hired at above GS-9 grade level generally do not receive basic Form 1040 training. According to the LB&I Division, employees join the IRS with different experience and knowledge levels; therefore, it is not cost-effective to give these basic training courses to all new hires. The LB&I Division assumes high-grade new hires already have the knowledge in this area because the job posting includes the following experience requirement:

*Experience interpreting and applying Federal tax law for individuals, business and/or exempt organizations, partnerships and corporations.*

If the new hires or their supervisors identify a need, new hires have the ability to request training in these areas. The LB&I Division also emphasized the benefits of on-the-job training, interspersed during the first year after hiring, for examination of high-income taxpayers. Additionally, the LB&I Division relies on network meetings, which serve as a central knowledge sharing forum for examiners working high-income cases. They provide a forum to engage with experienced examiners with real-time taxpayer practices where questions may be asked, guidelines and procedures can be reviewed, research-training material shared, and best practices and ideas discussed.

The LB&I Division's practice is inconsistent with the former IRS Commissioner's written response to the former Treasury Secretary's February 2020 directive. The former IRS Commissioner communicated the extensive training required of revenue agents and the need for Form 1040 training to audit high-income taxpayers:

*... significant training will be required for our existing employees who do not have Form 1040 or high wealth audit expertise in order to position them to appropriately take on this work. The vast majority of revenue agents who currently focus on business audits do not have training or experience involving the examination of a complex individual income tax return. It would take approximately 3-4 months until these otherwise experienced grade 13 revenue agents are equipped to handle this work.<sup>25</sup>*

We interviewed five revenue agents who joined the LB&I Division in FY 2021 or early FY 2022. Three out of the five stated that it would be beneficial to receive individual tax return training. They need to be knowledgeable enough when they have to work on individual tax returns, whether examining individual tax returns is a primary function or an ancillary function, *e.g.*, when an individual tax return is examined due to a related entity examination.

We also interviewed three LB&I Division frontline examination supervisors. One supervisor stated that LB&I Division revenue agents need individual return training. High earners have complicated Form 1040 returns that may involve pass-through entities and trusts. Currently, more than one-half of this supervisor group's workload are HII tax returns.

According to the IRS, sophisticated tax evasion by high-wealth individuals is costly and not easy to identify or examine. High-income taxpayers disproportionately accrue income in opaque sources like offshore bank accounts and/or complex pass-through business structures. The

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<sup>24</sup> The S Corporation training resources website contains additional courses which may be taken just-in-time.

<sup>25</sup> Correspondence, IRS Commissioner Charles Rettig to Secretary of the Treasury Steven Mnuchin (Mar. 2020).

average investigation of high-wealth individuals takes two years to complete and often requires the IRS to commit substantial resources.<sup>26</sup>

The LB&I Division's assumption about all higher grade new hires' knowledge and, hence, no need for basic training may not be consistent with the vision of training set forth in the IRS's IRA Strategic Operating Plan to equip employees who interact with taxpayers with training and the authority to resolve issues at the lowest appropriate level.<sup>27</sup> For example, a new hire may have significant corporate experience from working in a private company tax department but have very limited individual tax experience. Consequently, not all new hires who come on board above grade GS-9 level will have Form 1040 knowledge and/or may not be current on recent tax law changes over the last few years. Given the increased enforcement focus on individual high earners, all new hires must possess the basic knowledge in these areas. As such, the LB&I Division should provide Form 1040 training to all revenue agent new hires so they are prepared to conduct high-income taxpayer examinations. More importantly, the new hires would benefit from the HII training curriculum detailed in Figure 8. When we shared our observations and concerns, the LB&I Division stated that the new-hire training will be transitioned from the business operating divisions to the IRSU if the IRSU stands up.

As noted previously, only when the right personnel for the job are on board and are provided the right training is an organization's operational success possible. Specifically, under the Control Activities principle, training is aimed at developing and retaining employee knowledge, skills, and abilities to meet changing organizational needs. As such, it is critical that the IRS leverages the available knowledge base specific to high earners for training new hires.

The IRS Commissioner should:

**Recommendation 1:** Ensure that the IRS leverages the LB&I Division's extensive knowledge base for auditing global high-wealth taxpayers by embracing its current HII training content and providing revenue agent new hires, responsible for income tax examinations, HII training commensurate with the intent of IRA funding.

**Management's Response:** The IRS agreed with this recommendation. The IRS will ensure that the LB&I Division's extensive knowledge base for auditing high-income taxpayers is considered and incorporated into curriculum design and creation. This training will be provided to revenue agents whose job duties include examining high-income taxpayers.

**Recommendation 2:** Ensure that revenue agent new hires, responsible for income tax examinations, receive Form 1040 individual tax return training.

**Management's Response:** The IRS partially agreed with this recommendation. The IRS agreed to strategically focus on hiring employees with the education and experience to examine high-income and high-wealth taxpayers and will provide these new hires a level of training appropriate to their existing knowledge, skills, and experience in preparation for the work they will perform. For early-career new hires, the IRS will continue to

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<sup>26</sup> Testimony of Barry Johnson, Acting Chief, Research and Analytics Senate Finance Committee, Subcommittee on Taxation and IRS Oversight, Hearing on Offshore Tax Evasion, May 11, 2021.

<sup>27</sup> *IRS Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031* (Apr. 2023).

provide the appropriate level of training, including Form 1040 individual tax return training.

**Office of Audit Comment:** The IRS’s partial agreement and planned corrective action will satisfy the intent of our recommendation. Specifically, revenue agent new hires, responsible for income tax examinations, will have the education, experience, or training to examine Form 1040 individual tax returns.

## **Examination Plans Show No Significant Increase in the Examination of High-Income Taxpayers, Despite Additional Congressional Appropriation**

We assessed the IRS’s intended efforts to examine high-income individuals with the enforcement funding increase provided by the IRA. The IRS’s IRA Strategic Operating Plan set forth increasing compliance coverage in areas with complex issues and complex returns such as high-income and high-wealth individuals. We compared the SB/SE and LB&I Divisions’ FYs 2022 and 2023 Examination Plans. Our analysis disclosed no significant increase in the number of high-income individual return audits that the SB/SE Division plans to start. Additionally, the LB&I Division’s resource allocation plan is not detailed enough for us to make the assessment.

According to the IRS, hiring negatively impacted the IRS’s examination effort, as experienced examiners are taken offline to act as on-the-job instructors (OJI) to train new hires. Because experienced revenue agents work more complex returns and new hires work simpler returns, one could expect to see a change in the mix of returns examined as the IRS on boards new examiners.

The IRS did not use the entire appropriated enforcement budget for FY 2022. According to the IRS, the appropriation language allowed it to carry over \$250 million enforcement funding to FY 2023. Congress also granted the IRS an additional authority to transfer any anticipated surplus above this threshold (up to \$100 million) to support FY 2023 needs in Taxpayer Services and Operations Support to avoid any lapsed resources.

### **The SB/SE Division**

In December 2022, the SB/SE Division’s leadership team communicated to their employees that in FY 2023, it will strive to increase audits by selecting the most appropriate returns for enforcement action and address compliance by selecting the most appropriate enforcement action for examination and collection focus areas. Furthermore, the goals and focus initiatives include reducing the Tax Gap and ensuring fairness across all taxpayer groups with increased compliance focus on high-income/high-wealth individuals, corporations, and pass-through entities.<sup>28</sup>

Our analysis of the SB/SE Division’s FY 2022 Field Examination Plan showed that despite congressional encouragement to examine individual high earners and the former Treasury Secretary’s directive, most examinations were not focused on high-income taxpayers. Even though IRS efforts have increased specifically for examinations of taxpayers with total positive income (TPI) above \$10 million (exceeding the 8 percent target for Tax Years 2018 and 2019), there is a need to increase efforts to cover high-earner taxpayers that fall below the \$10 million

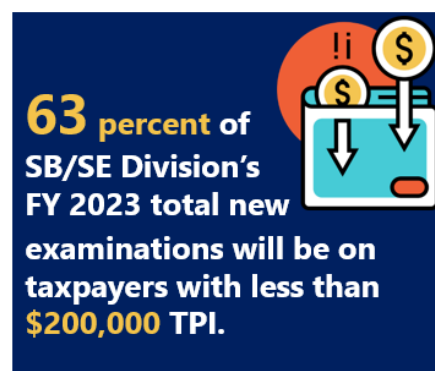
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<sup>28</sup> Publication 5448, *SB/SE Focus Guide* (Rev. Dec. 2022).

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TPI threshold. Figure 9 shows that about 75 percent of the new individual examinations were on taxpayers with less than \$200,000 TPI. Also, taxpayers with less than \$1 million TPI accounted for 89 percent of the new examination cases.

According to the SB/SE Division’s FY 2023 Field Examination Plan, despite receiving additional funding, overall, it plans to start a total of 16,609 fewer individual examination cases as compared to FY 2022. Figure 9 shows that while the bulk of the reduction (15,777 out of 16,609) will be in the category of taxpayers with less than \$200,000 TPI, in terms of the total new examinations, 63 percent will be on taxpayers with less than \$200,000 TPI. Also, taxpayers with less than \$1 million TPI will account for 80 percent of the planned new examinations.



Notwithstanding, in FY 2023, the SB/SE Division is planning to increase the number of examinations on taxpayers with \$5 million or more TPI. Taxpayers with TPI between \$5 million and \$10 million will see the highest increases in examination coverage.

Additionally, according to the SB/SE Division, training returns assigned to revenue agents hired after February 2023 will all be in the \$200,000 and higher categories. This shift in assigned returns will introduce the new hires to the kinds of issues that are typically found on high-income earners.

**Figure 9: SB/SE Division FYs 2022 and 2023 Field Examination Plan by Activity Codes for Individual Tax Returns**

Activity Code	TPI Range	FY 2022		FY 2023 <sup>29</sup>		Change Between FYs 2022 and 2023 (decrease)
		Primary Starts	Percentage of Total	Primary Starts	Percentage of Total	
266 - 278	<\$200,000	34,044	75%	18,267	63%	(15,777)
279 - 280	>\$199,999 and <\$1 million	6,463	14%	4,895	17%	(1,568)
281	>999,999 (prior to January 2022)	0	0%	0	0%	0
282	>=\$1 million and <\$5 million	3,103	7%	2,451	8%	(652)
283	>=\$5 million and <\$10 million	541	1%	1,547	5%	1,006
284	>=\$10 million	1,454	3%	1,836	6%	382
	<b>Total</b>	<b>45,605</b>	<b>100%</b>	<b>28,996</b>	<b>100%*</b>	<b>(16,609)</b>

Source: SB/SE Division management. \*Off due to rounding.

Also, in FY 2023, the SB/SE Division will allocate more direct examination staff time to flow-through entities, *i.e.*, partnerships and S Corporations. According to the SB/SE Division, about 75 percent of the planned new flow-through cases will be training returns selected based on risk and pulled by activity codes. These primary new start examinations do not include

<sup>29</sup> The SB/SE Division provided this information in January 2023. The SB/SE Division FY 2023 Examination Plan was not updated after the IRS issued the *Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031 (Apr. 2023)*.

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related returns that could be picked up from auditing high-income taxpayers. The SB/SE Division stated that examination of primary flow-through entities will generate related return audits such as shareholders/partners, many of which will be high-income taxpayers.<sup>30</sup>

The data in Figure 9 represent the SB/SE Division’s overall Field Examination Plan. For insight into revenue agents’ examination workload, the SB/SE Division provided a comparison of FYs 2022 and 2023 Examination Plans for revenue agents only. Figure 10 shows that revenue agents will start 13,000 fewer examinations in FY 2023, with the bulk (11,036 out of 13,081) of the reduction in the category of taxpayers with less than \$200,000 TPI. Regardless, taxpayers with less than \$1 million in TPI will account for 60 percent of new examination cases in FY 2023. SB/SE Division revenue agents will increase the number of examinations on taxpayers with \$5 million or more in TPI, with an equal increase for taxpayers between \$5 million and \$10 million, and at least \$10 million.

**Figure 10: SB/SE Division FYs 2022 and 2023 Field Examination Plans  
by Activity Codes for Individual Tax Returns Examined by Revenue Agents<sup>31</sup>**

Activity Code	TPI Range	FY 2022		FY 2023		Change Between FYs 2022 and 2023 (decrease)
		Primary Starts	Percentage of Total	Primary Starts	Percentage of Total	
266 - 278	<\$200,000	14,790	62%	3,754	35%	(11,036)
279 - 280	>\$199,999 and <\$1 million	4,262	18%	2,562	24%	(1,700)
281	>999,999 (prior to January 2022)	0	0%	0	0%	0
282	>= \$1 million and < \$5 million	2,799	12%	1,639	15%	(1,160)
283	>= \$5 million and <\$10 million	721	3%	1,128	11%	407
284	>= \$10 million	1,100	5%	1,508	14%	408
	Total	23,672	100%	10,591	100%*	(13,081)

Source: SB/SE Division management. \*Off due to rounding.

The focus on flow-through entities will affect resources available to conduct individual examinations. However, the SB/SE Division believes it will better prepare the new revenue agents to audit high-income individuals in the future. The FY 2022 Examination Plan showed 71 percent and 15 percent of total direct examination staff time allocated to individual and flow-through entities, respectively. Comparatively, in the FY 2023 Examination Plan, 60 percent and 22 percent of total direct examination staff time are allocated to individual and flow-through entities, respectively.

According to the SB/SE Division, its new examiner training program takes approximately two to three years to complete (from the hiring date through the end of the last on-the-job

<sup>30</sup> According to the SB/SE Division, for planning purposes, Field Examination assumes that on average, 33 out of the 58 related individual returns associated with 100 primary S Corporation training-starts will be high-income earners with TPI more than \$200,000. For partnership training returns, the estimates are 14 high-income earners out of 29 related individual returns. These estimates are based on historical results.

<sup>31</sup> Information provided by the SB/SE Division in April of 2023.

training phase). The revenue agent new hires will work 40 training returns during their training. At the conclusion of the last on-the-job phase, the new examiners are deemed fully trained and qualified to work non-training returns appropriate for their position and grade level. For each 100 revenue agents hired, it takes 18 experienced full-time revenue agents during the first two years to train the new hires properly. The OJIs are taken offline when a hiring wave occurs.

## **The LB&I Division**

The LB&I Division's FY 2023 strategies fall under the umbrella of two goals: 1) meet tax administration responsibilities effectively and 2) support current and future LB&I Division employees by pursuing sustainable, consistent workplace improvements that incorporate the future of work. The actions listed to meet tax administration responsibilities include increased work in the areas of pass through and high-income/high-wealth to reduce the Tax Gap and effect greater fairness across all taxpayer groups. The actions listed for supporting employees include support for a hiring and onboarding strategy to increase enforcement personnel to address high-priority areas.<sup>32</sup>

Starting with FY 2019, instead of planning the number of examinations it will start or close by examination activity codes, the LB&I Division uses a resource allocation method to plan its examination effort. According to the LB&I Division, it considers strategic priorities to prioritize examination case selections and assignments. Figure 11 shows how the LB&I Division groups work into eight compliance program areas and allocates direct examination time (hours) to each program area.

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<sup>32</sup> Publication 5319, *LB&I Division FY 2023 Focus Guide* (Rev. Oct. 2002).

**Figure 11: LB&I Division’s FYs 2022 and 2023 Examination Plan**

Compliance Program Area	FY 2022		FY 2023 <sup>33</sup>	
	Direct Exam Time (hours)	Percentage of Total	Direct Exam Time (hours)	Percentage of Total
Direct Non-Return <sup>34</sup>	727,419	20%	683,211	21%
Compliance Assurance Process <sup>35</sup>	171,157	5%	141,000	4%
Large Corporate Compliance <sup>36</sup>	661,290	18%	634,042	19%
GHW/HII/Pass Through	466,793	13%	632,000	19%
Campaigns	630,000	17%	616,000	18%
Foreign Payment Practice <sup>37</sup>	20,000	1%	23,393	1%
Mandatory <sup>38</sup>	346,205	10%	326,307	10%
Discretionary <sup>39</sup>	606,615	17%	275,834	8%
Total	3,629,478	100%*	3,331,787	100%

Source: LB&I Division management. \*Off due to rounding.

According to the LB&I Division, individual high-income taxpayers’ examinations could be included in five compliance programs: GHW/HII/Pass Through, Campaigns, Foreign Payment Practice, Mandatory, and Discretionary. However, individual high earners would only account for a portion of each of these five programs. Consequently, there is no clear visibility to the effort devoted to individual high-income taxpayer coverage. While the number of high-income examination closures may be identified, the Examination Plan does not provide the number of high-income examinations. Because the high-income work can be found in multiple workstreams, according to the LB&I Division, it tracks the number of monthly high-income case-starts.

<sup>33</sup> The LB&I Division provided this in January 2023. The LB&I Division FY 2023 Examination Plan was not updated after the IRS issued the *Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031* (Apr. 2023).

<sup>34</sup> Time on compliance activity that is not directly connected to a specific return. Time includes but is not limited to industry specialists time not charged to a specific case, certain consultations, pricing issues, prefiling technical guidance, international penalties, senior revenue agent time spent on coaching, *etc.*

<sup>35</sup> A voluntary prefiling program to resolve tax issues between the IRS and LB&I Division taxpayers prior to the filing of a return. With potential tax issues largely settled before filing, taxpayers are generally subject to shorter and narrower post-filing examinations.

<sup>36</sup> Uses automated pointing criteria and advanced data analytics to categorize large corporate population. Undertakes compliance actions including risk analysis and the implementation of compliance treatment streams.

<sup>37</sup> Provides oversight of nonresident alien withholding tax matters and foreign financial institution compliance, with an emphasis on Service-wide coordination of technical issues, compliance, processing, and other information relating to nonresident aliens.

<sup>38</sup> Includes processes and oversight required to identify, prioritize, and allocate resources toward mandatory work and those that can arise unexpectedly, such as enactment of new legislation and reactions to natural disasters. The work includes Joint Committee, national research project, and tax shelter returns.

<sup>39</sup> Includes work on the remaining LB&I Division population that is not covered by other compliance programs.

To better assess if the LB&I Division is meeting the spirit of the congressional intent to increase examination coverage of individual high earners, we analyzed the compliance program area “GHW/HII/Pass Through.” We were particularly interested in direct examination hours allocated to the subprograms GHW and HII because their objectives are on high-income and high-wealth individuals and efforts to meet the former Treasury Secretary’s directive.

**The LB&I Division’s FY 2023  
Examination Plan shows no direct  
effort to increase examinations of  
individual high earners.**

Figure 12 shows that despite growth in funding, there is no significant direct examination time increase between FYs 2022 and 2023 for the GHW and the HII. Consequently, we see no direct effort to increase examinations of individual high earners. According to the LB&I Division, the IRS’s inability to hire revenue agents (see prior discussion in the section “Factors impeding revenue agent hiring”) contributed to this condition. However, we noted that the LB&I Division plans to focus more on pass-through entities.

**Figure 12: LB&I Division FYs 2022 and 2023 Resource Allocation  
Breakdown for the Compliance Program Area GHW/HII/Pass Through**

Compliance Subprogram Area	FY 2022		FY 2023 <sup>40</sup>	
	Direct Exam Time (hours)	Percentage of Total FY 2022 Examination Plan	Direct Exam Time (hours)	Percentage of Total FY 2023 Examination Plan
GHW	85,579	2%	74,000	2%
HII	245,066	7%	270,000	8%
Pass Through	136,148	4%	288,000	9%
Subtotal	466,793	13%	632,000	19%

Source: LB&I Division management.

In a prior TIGTA audit, we found that the LB&I Division spends most of its time and resources on auditing businesses. During the last five fiscal years (FYs 2017 through 2021), 67 percent of the examinations that the LB&I Division closed consisted of tax returns filed by individual taxpayers. Most of these individual income tax returns reported income of less than \$200,000.<sup>41</sup>

According to the LB&I Division, its general policy is to assign up to five new hires to the OJIs who devote “full time” to their OJI duties. Full-time OJIs generally have had their case inventory reduced or have had all their inventory reassigned to other revenue agents, thus being able to focus all their time to coaching the new hires. For part-time OJIs (OJIs who have not had their workload reduced), they would be assigned up to three new hires. The majority of LB&I Division OJIs are part-time OJIs.

<sup>40</sup> The LB&I Division provided this in January 2023. The LB&I Division FY 2023 Examination Plan was not updated after the IRS issued the *Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031 (Apr. 2023)*.

<sup>41</sup> TIGTA, Report No. 2023-30-019, *The IRS Large Business and International Division Should Consider Shifting Individual Examination Resources to More Productive Examinations* (May 2023).



The LB&I Division does not have data on how many experienced revenue agents will be taken offline to train the new hires. Its FY 2023 new-hire training plan will be developed as part of the process to develop the plan for implementing the IRA. LB&I Division Examination new hires are assigned training returns approximately eight weeks after onboarding. Thereafter, assignment of non-training returns is dependent upon several factors including how quickly the new hire completes one or more of their training cases, the number of assigned cases within the group, and Campaign or other specialized cases that have priority within the group.

**Recommendation 3:** The Commissioner, LB&I Division, should ensure that the examination plans are more transparent in showing the examination effort on individual high-income taxpayers.

**Management's Response:** The IRS partially agreed with this recommendation. In its response, the IRS said it will develop an enterprise-wide examination plan for FY 2024 and future years and agreed to consider all available resources and allocate available examination resources to compliance priorities, high-income taxpayers, large corporations, and complex partnerships.

**Office of Audit Comment:** The IRS's partial agreement and planned corrective action will satisfy the intent of our recommendation if the enterprise-wide examination plan for FY 2024 provides transparency of the planned examination effort on high-income taxpayers.

**Recommendation 4:** The Commissioners, SB/SE and LB&I Divisions, should coordinate examination planning to ensure that the examination plans will follow the Secretary of the Treasury Directive to prioritize coverage of individual high-income earners over \$400,000.

**Management's Response:** The IRS agreed with this recommendation. The IRS agreed to ensure that the enterprise examination plan will follow the Treasury Secretary's directive to not increase audit rates above historic levels for households making less than \$400,000 and small businesses.

## **IRS Training of Revenue Agents for High-Income Examinations Lacks a Clear Definition of Individual High-Income Taxpayers**

The IRS does not have a unified or updated definition for individual high-income taxpayers. According to the IRS, the definition varies according to context as different programs are designed to address compliance coverage across different parts of the filing population. The IRS's current default definition of high-income taxpayers is \$200,000 and above. However, over seven years ago, the IRS agreed, at that time, with TIGTA's recommendation to study increasing the threshold definition. If the threshold is set too low, attempts at addressing high-income taxpayer noncompliance may be less productive.

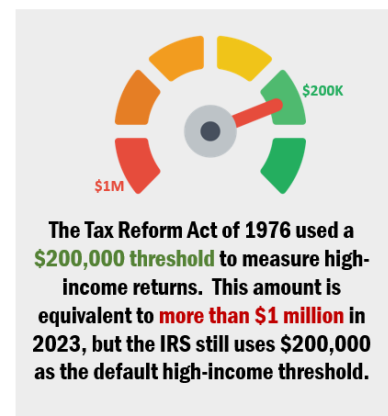
According to the IRS's most recent Tax Gap report, compliance is higher when amounts are subject to information reporting and even higher when also subject to withholding. The extent of coverage by information reporting and/or withholding is called "visibility" because incomes that are reported to the IRS are more "visible" to both the IRS and taxpayers. Misreporting of income amounts subject to substantial information reporting and withholding is 1 percent of income. For amounts subject to substantial information reporting but not withholding, it is

6 percent; for income amounts subject to little or no information reporting, such as nonfarm sole proprietor income, it is 55 percent.<sup>42</sup>

As such, where there is reporting to the IRS and withholding (as is the case with wages), auditing those taxpayers would not be as productive a use of IRS resources as auditing taxpayers whose income and financial transactions are less visible to the IRS.

On the other hand, setting a threshold for high-income taxpayers too high may leave out a significant number of taxpayers outside of the IRS's enforcement efforts when their income and other earnings lack visibility and transparency to the IRS. In the February 2020 memorandum from the former Treasury Secretary to the IRS Commissioner, the threshold for additional audits was established at \$10 million adjusted gross income.

The Tax Reform Act of 1976 required annual publication of data on individual income tax returns reporting income of \$200,000 or more.<sup>43</sup> This \$200,000 threshold was used to measure high-income returns. According to the IRS, in 2005, it began defining high-income taxpayers as those with TPI of \$200,000 or more. Responding to a TIGTA audit recommendation in FY 2017, the IRS reevaluated the appropriate income thresholds for the IRS's High-Income and High-Wealth Strategy.<sup>44</sup> However, based on internal data analysis results and resource constraints, the IRS made no changes to the income thresholds for high-income high-wealth taxpayers. According to the U.S. Federal Reserve calculator, \$200,000 in 1976 equals \$1,088,223 in 2023.<sup>45</sup>



The IRS's IRA Strategic Operating Plan states, "We will devote resources to enforcing the tax laws against taxpayers who attempt to avoid paying their tax obligations. All compliance efforts will be consistent with the Secretary of the Treasury's August 10, 2022, directive that IRA resources are not used to increase the share of ... households earning \$400,000 or less that are audited relative to historical levels."<sup>46</sup>

Because \$400,000 will be an important threshold, the IRS needs to update the examination activities codes for individual tax returns. Figure 13 shows that the current examination coding scheme uses \$200,000 as a main threshold even though it is no longer a reasonable standard for high earners given inflation since 2005. For example, there is no way to identify the complete population of taxpayers that meet the criterion of \$400,000 or more specified by the current Treasury Secretary.<sup>47</sup>

<sup>42</sup> Publication 1415, *Federal Compliance Tax Research: Tax Gap Estimates for Tax Years 2014-2016* (Rev. Oct. 2022).

<sup>43</sup> Pub. L. 94-455.

<sup>44</sup> TIGTA, Report No. 2015-30-078, *Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers* (Sept. 2015).

<sup>45</sup> Federal Reserve Bank of Minneapolis inflation calculator (<https://www.minneapolisfed.org/about-us/monetary-policy/inflation-calculator>).

<sup>46</sup> *IRS Inflation Reduction Act Strategic Operating Plan FY 2023-2031* (Apr. 2023).

<sup>47</sup> The current activity code schema does allow the IRS to identify the individual taxpayer population above \$1 million, which ties closely to \$1,088,223, the estimated current value of \$200,000 in 1976.

**Figure 13: Examination Activity  
Codes for Individual Tax Returns**

Activity Code	TPI Range
270 - 278	<\$200,000
279 - 280	>\$199,999 and <\$1 million
281	>999,999 (prior to January 2022)
282	>= \$1 million and < \$5 million
283	>= \$5 million and <\$10 million
284	>= \$10 million

Source: *IRS Processing Codes and Information 2023*.

An accurate activity code scheme is important because it would enable the IRS to track issues found during examinations of high earners. The data can then be used to identify emerging issues and alert revenue agents working high-income returns. Additionally, it would enable the IRS to develop and provide timely training as needed.

Furthermore, as set forth in the IRS's IRA Strategic Operating Plan, the initiative to increase enforcement activities to help ensure tax compliance of high-income and high-wealth individuals will include leveraging data analytics to improve the IRS's understanding of the tax filings of high-wealth individuals and to address potential noncompliance, given issue-specific risks. Consequently, to facilitate data analysis, examination code scheme refinement is needed to better identify and track examination results of households earning more than \$400,000.

The IRS Commissioner should:

**Recommendation 5:** Establish a definition for high-income taxpayers in reference to examination compliance for purposes of focusing on income levels above which taxpayers have unique and varied opportunities for tax avoidance.

**Management's Response:** The IRS disagreed with this recommendation. It asserted that a static and overly proscriptive definition of high-income taxpayers for purposes of focusing on income levels above which taxpayers have unique and varied opportunities for tax would serve to deprive the IRS of the agility to address emerging issues and trends.

**Office of Audit Comment:** The definition of high-income taxpayers does not have to be static. In fact, as demonstrated in this audit, the income threshold amount should be adjusted accordingly based on economic and complexity factors. In addition, as we have demonstrated in prior audits (such as TIGTA's report *Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers* (Report No. 2015-30-078) in which the IRS agreed to study the appropriate high-income thresholds and make changes accordingly) when the high-income thresholds are set too low, the result can be higher numbers of inefficient examinations. When the definition is too low, the base of taxpayers earning those incomes is wider so that the IRS does many more audits in that category in order to achieve desired audit coverage, yet

the audits are less productive because there is less opportunity for tax avoidance at lower incomes. Currently, the high-income terminology is being used loosely inside the IRS with no common understanding of what the term means. At a minimum, the IRS should accept the Treasury Secretary's \$400,000 directive as the new high-income floor on which IRS leadership can focus enforcement efforts.

**Recommendation 6:** Further refine the examination activity codes scheme to better identify high-income individual returns.

**Management's Response:** The IRS partially agreed with this recommendation. The IRS agreed to identify the best method to identify and track high-income examinations as part of the work being undertaken to implement the Treasury Secretary's directive to not increase audit rates for households making less than \$400,000 and small businesses.

**Office of Audit Comment:** The IRS's partial agreement and planned corrective action will not satisfy the intent of our recommendation, and additional actions are needed. Specifically, the IRS should establish examination activity codes for additional TPI increments which will help the IRS identify noncompliance at different income levels.

## Appendix I

### Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the IRS's strategy to train employees hired specifically to conduct audits of high earners and large businesses that underreport income. To accomplish our objective, we:

- Reviewed the LB&I and SB/SE Divisions' training for revenue agent new hires.
- Reviewed the LB&I Division's self-study training for new HII revenue agents.
- Obtained data on the LB&I and SB/SE Divisions' revenue agent hiring in FY 2021 through March 31, 2023, and the new hires training completion status at the end of March 2023.
- Obtained data on the LB&I and SB/SE Divisions' revenue agent attrition in FYs 2021 through March 31, 2023.
- Obtained data on the LB&I and SB/SE Divisions' planned revenue agent hiring for FY 2023.
- Obtained data on the number of revenue agents on-roll in the LB&I and SB/SE Divisions at the end of FYs 2019 and 2020, and 2023 (on March 31, 2023).
- Obtained the IRS's position on what it considers high earners, and reviewed the examination activity codes and associated definitions.
- Compared and analyzed the LB&I and SB/SE Divisions' FY 2022 and 2023 Examination Plans for changes in coverage of high earners.
- Reviewed the LB&I and SB/SE Divisions' strategies and goals for FY 2023.
- Reviewed the IRS's IRA Strategic Operating Plan.<sup>1</sup>
- Reviewed the IRS's TFA Report to Congress.<sup>2</sup>
- Interviewed five revenue agents and three first-line examination managers from the LB&I Division.
- Obtained information on the IRSU's training responsibilities and strategy to train new hires to conduct audits of high earners.

### Performance of This Review

This review was performed with information obtained from the LB&I and SB/SE Divisions, and the IRSU during the period May 2022 through May 2023. We conducted this performance audit 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 objective. We believe that

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<sup>1</sup> *IRS Inflation Reduction Act Strategic Operating Plan FY 2023 – 2031* (Apr. 2023).

<sup>2</sup> *Taxpayer First Act Report to Congress* (Jan. 2021).

the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Matthew Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Tim Greiner, Director; Lee Hoyt, Audit Manager; and Julia Tai, Lead Auditor.

### **Validity and Reliability of Data From Computer-Based Systems**

We did not use computer-processed data for this limited scope review. We reported IRS-provided data. Due to time and resource constraints, we did not validate the accuracy and reliability of the information.

### **Internal Controls Methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We did not assess internal controls because doing so was not applicable within the context of our objective. Our data analysis was limited to identifying changes in the IRS's FYs 2022 and 2023 Examination Plans and computing the percentage change in revenue agent staffing level from end of FY 2019 to end of March 2023.

Former Secretary of the Treasury's Directive



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

February 10, 2020

**MEMORANDUM FOR INTERNAL REVENUE SERVICE COMMISSIONER  
CHARLES P. RETTIG**

**FROM:** Steven T. Mnuchin, Secretary of the Treasury 

**SUBJECT:** Importance of Audit Procedures

Robust enforcement of the tax laws is critical to ensuring fairness in our tax system. By pursuing taxpayers who fail to comply with their tax obligations, the Internal Revenue Service (IRS) treats compliant taxpayers fairly and incentivizes all taxpayers to voluntarily comply with the law.

You and I have recently reviewed the IRS's recent audit rates for high-income individual returns—*i.e.*, the returns of individual taxpayers with adjusted gross income above \$10 million. I am concerned with the reduction in audit rates and as such, I have concluded that it is necessary and appropriate for the IRS to audit a minimum of at least 8% of all such returns filed each year.

Therefore, pursuant to 26 U.S.C. §§ 7801 and 7803 (a)(2), I direct you to take all steps necessary to ensure that the IRS audits a minimum of 8% of all high-income individual returns filed each year, starting with the 2016 tax year.

Although the IRS audited at least this percentage of high-income individual returns for the 2010 through 2015 tax years, the IRS's audit rate projections for subsequent tax years currently fall below this threshold. I understand that the IRS has operated under significant budgetary constraints throughout this period. In the event that you determine that the IRS will need to reallocate resources to implement this directive, please advise me of your resource needs within 30 days of this letter.

## Appendix III

### Current Secretary of the Treasury's August 10, 2022, Directive



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 10, 2022

Charles P. Rettig  
Commissioner  
Internal Revenue Service  
Washington, DC 20224

Dear Commissioner:

The Inflation Reduction Act includes much-needed funding for the IRS to improve taxpayer service, modernize outdated technological infrastructure, and increase equity in the tax system by enforcing the tax laws against those high-earners, large corporations, and complex partnerships who today do not pay what they owe.

These crucial investments have been a focus of the Biden Administration since the President's first day in office, and I was heartened to see the legislation pass the Senate this weekend.

Notwithstanding the changes that arose because of Republican challenges during the Byrd process, I write today to confirm the commitment that has been a guiding precept of the planning that you and your team are undertaking: that audit rates will not rise relative to recent years for households making under \$400,000 annually.

Specifically, I direct that any additional resources—including any new personnel or auditors that are hired—shall not be used to increase the share of small business or households below the \$400,000 threshold that are audited relative to historical levels. This means that, contrary to the misinformation from opponents of this legislation, small business or households earning \$400,000 per year or less will not see an increase in the chances that they are audited.

Instead, enforcement resources will focus on high-end noncompliance. There, sustained, multi-year funding is so critical to the agency's ability to make the investments needed to pursue a robust attack on the tax gap by targeting crucial challenges, like large corporations, high-net-worth individuals and complex pass-throughs, where today the IRS has resources to initiate just 7,500 audits annually out of more than 4 million returns received.

This is challenging work that requires a team of sophisticated revenue agents in place to spend thousands of hours poring over complicated returns, and it is also work that has huge revenue potential: indeed, an additional hour auditing someone making more than \$5 million annually generates an estimated \$4,500 of additional taxes collected. This is essential work that I know the IRS is eager to undertake.

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## The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers

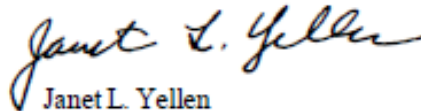
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For regular taxpayers, [as you emphasized last week](#), the result of this resource infusion will be a lower likelihood of audit by an agency that has the data and technological infrastructure in place to target enforcement resources where they belong—on the high end of the income distribution, where the top 1% alone is estimated to not be paying \$160 billion in owed taxes each year. That's important as a matter of revenue-raising, but it's also essential as a matter of fairness.

Crucially, these resources will support a much-needed upgrade of technology that is decades out-of-date, and an investment in taxpayer service so that the IRS is finally able to communicate with taxpayers in an efficient, timely manner. I look forward to working with you on creating new digital tools to allow taxpayers to get information from the IRS instantaneously and on improving taxpayer service, so the agency is well-equipped to answer calls when they come in.

This historic investment in our tax system will accomplish two critical objectives. It will raise substantial revenue to address the deficit; and it will create a fairer system, where those at the top who do not today comply with their tax obligations find it far less easy to do so, and where all taxpayers receive the service from the IRS that they deserve, and that your dedicated workforce is eager to deliver. The importance of the work ahead cannot be overstated.

Sincerely,



Janet L. Yellen

**Current Secretary of the Treasury's August 17, 2022, Directive**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 17, 2022

**MEMORANDUM FOR COMMISSIONER RETTIG**

**FROM:** Janet L. Yellen, Secretary of the Treasury  
**CC:** Wally Adeyemo, Deputy Secretary of the Treasury  
**SUBJECT:** IRS Operational Plan

The Inflation Reduction Act provides the IRS what it has needed for years—a stable stream of mandatory funding that will allow the agency to serve American taxpayers the way they deserve and to enforce the tax laws against high net-worth individuals, large corporations, and complex partnerships who today pay far less than they owe.

Ahead of us is a monumental opportunity to transform tax administration in this country. It is also a significant operational challenge. The work will require an all-hands-on-deck approach from the dedicated employees of the IRS. And it will require the agency to modernize: first, to fully resolve the inventory backlog and make significant improvements in taxpayer services; second, to overhaul an information technology system that is decades out of date and invest in training employees so they can identify the most complex evasion schemes by those at the top; and third, to replace the attrition that is on the horizon from the expected retirement of at least 50,000 IRS employees over the next five years.

As I wrote [last week](#), these investments will not result in households earning \$400,000 per year or less or small businesses seeing an increase in the chances that they are audited relative to historical levels. Instead, they will allow the IRS to work to end the two-tiered tax system, where most Americans pay what they owe, but those at the top of the distribution often do not.

Before it was stricken during the Byrd process, the Inflation Reduction Act would have required the IRS to produce a six-month operational plan detailing how these resources will be deployed over the course of the next decade. This kind of planning is crucial, so I am directing that such a plan should be delivered to me six months from today.

Specifically, I would like the IRS to work closely with the Deputy Secretary to identify specific operational initiatives and associated timelines that will improve taxpayer service, modernize technology, and increase equity in our system of tax administration by pursuing tax evasion by those at the top who today do not pay their tax bill.

This operational plan should include details on how resources will be spent over the ten-year horizon on technology, service improvement, and personnel. This operational plan is key to

**The IRS Needs to Leverage the Most Effective Training  
for Revenue Agents Examining High-Income Taxpayers**

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ensuring the public and Congress are able to hold the agency accountable as it pursues needed improvements. To that end, as you develop an operational plan, it must include metrics for areas of focus and targets over the course of the coming years that the agency will strive to achieve.

I am prepared to approve the near-term use of funds to improve services for next filing season, but we should treat this plan as a prerequisite for expending these resources more broadly, as I think there is value in thinking carefully over the course of the next few months how work should be prioritized and sequenced to achieve our goals.

Thanks to the efforts of Congress and this Administration, we finally have the tools that we need to improve the service that is provided to American taxpayers and address noncompliance by the wealthy and those who aid and abet them. I know this is work you are committed to, and I look forward to working closely with the IRS on the effort ahead.

## Appendix V

### IRS University's Core Competency Elements for Revenue Agents

Competency Elements	Description
<b>Accountability</b>	Ability to hold self and others accountable for measurable high-quality, timely, and cost-effective results. Skill in determining objectives and setting priorities. Ability to accept responsibility for mistakes. Ability to comply with established control systems and rules.
<b>Attention to Detail</b>	Ability to perform thorough work and attend to detail. Ability to identify a need; gather, organize, and maintain information; determine its importance and accuracy, and communicate it by a variety of methods.
<b>Auditing and Accounting Expertise</b>	Knowledge of auditing and accounting principles, standards, procedures, and techniques. Ability to understand and implement changes in accounting and auditing practices. Skill in conducting mathematical computations for tax purposes.
<b>Computer Literacy</b>	Skill in using computer system(s) and software to access or retrieve information from files, databases, records, programs, etc. Skill in using several software systems that are mandatory for use. Knowledge of available on-line systems, research materials, technology, tools, and processing procedures.
<b>Conflict Resolution</b>	Ability to address and work through opposing viewpoints to gain cooperation and achieve fair and impartial resolution to disputes. Ability to mediate between government and taxpayer positions to resolve a dispute or to convey a decision. Ability to deal tactfully with individuals on controversial and sensitive matters to resolve issues related to organizational conflict and other competing objectives.
<b>Customer Service</b>	Ability to anticipate and meet the needs of both internal and external customers. Ability to deliver high-quality products and services.
<b>Decision Making</b>	Skill in making sound, well-informed, and objective decisions, taking into consideration the potential impact and implications of the decisions. Ability to commit to action even in uncertain situations.
<b>Information Management</b>	Skill in identifying a need for information. Knowledge of where and how to gather information. Ability to organize and maintain information or information management systems.
<b>Interpersonal Skills</b>	Ability to show understanding, friendliness, courtesy, tact, empathy, concern, and politeness to others. Skill in developing and maintaining relationships with others, which may include effectively dealing with difficult individuals. Ability to relate to people from varied backgrounds and different situations. Ability to show sensitivity based on differences (e.g., culture, race, gender, disabilities).
<b>Investigative Techniques</b>	Knowledge of and ability to apply complex investigative techniques and procedures (for example, locating taxpayers and assets in a rapidly changing global environment) in completing case assignments.
<b>IRS Procedural Expertise</b>	Knowledge of various internal procedures and operations. Knowledge of various collection procedures, tools, processes, and their appropriate applications. Ability to analyze and resolve taxpayer inquiries and to trace status of payments. Ability to research and apply IRS publications, manuals, and data systems to work.
<b>Oral Communication</b>	Ability to express information (e.g., ideas, facts) to individuals or groups effectively, considering the audience and nature of the information (e.g., technical, sensitive, controversial). Ability to make clear and convincing oral presentations. Skill in listening to others, attending to nonverbal cues, and responding appropriately.

**The IRS Needs to Leverage the Most Effective Training  
for Revenue Agents Examining High-Income Taxpayers**

Competency Elements	Description
<b>Organizational Awareness</b>	Knowledge of the structure, corporate functions, and dynamics within the IRS. Knowledge of the Service's tax processing information systems' components including processing, accounts management, and compliance and their interrelationships. Knowledge of how the IRS fits within the broader context of Federal agencies and how it contributes to government functioning.
<b>Planning and Evaluating</b>	Ability to organize work, set priorities, and determine resource requirements. Skill in determining short- or long-term goals and strategies to achieve them; ability to coordinate with other organizations or parts of the organization to accomplish goals; skill in monitoring progress and evaluating outcomes.
<b>Problem Solving</b>	Ability to identify problems; skill in determining accuracy and relevance of information. Ability to use sound judgment to generate and evaluate alternatives, and to make recommendations.
<b>Resilience</b>	Ability to work persistently in the face of obstacles. Ability to deal calmly and effectively with high stress situations.
<b>Tax and Mathematical Expertise</b>	Skill in performing computations such as addition and multiplication and solving practical problems by choosing appropriately from a variety of mathematical techniques such as formulas and percentages. Knowledge of accounting and tax law for individuals, sole proprietorships, partnerships, and corporations.
<b>Tax Law Expertise</b>	Knowledge of Internal Revenue Code and Regulations, Internal Revenue Manual, and related laws, court decisions, and precedent rulings. Ability to reconcile and apply knowledge from tax laws applicable to the tax period in dispute. Knowledge of IRS policies and procedures and Federal taxation laws. Knowledge of how accounting and tax law apply to individuals, sole proprietorships, partnerships, and all tax entities.
<b>Written Communication</b>	Knowledge of correct English grammar, punctuation, and spelling. Ability to communicate information (e.g., facts, ideas, messages) in a succinct and organized manner. Skill in producing written information, which may include technical material, that is appropriate for the intended audience.

Source: IRS Revenue Agent (0512) Competency Model (Apr. 2022).

Management's Response to the Draft Report



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

August 14, 2023

MEMORANDUM FOR HEATHER M. HILL  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Douglas W. O'Donnell Digitally signed by Douglas W. O'Donnell  
Date: 2023.08.14 20:24:34 -0400  
Deputy Commissioner for Services and Enforcement

SUBJECT: Draft Audit Report # 202230040, "The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers"

In August 2022, Congress enacted the Inflation Reduction Act (IRA), giving the Internal Revenue Service (IRS) a historic opportunity to transform the administration of the tax system and the services provided to taxpayers. At Secretary of Treasury's direction, the IRS prepared a Strategic Operating Plan (SOP) detailing the objectives, initiatives and projects intended to deliver the IRA.

Objective 3 of the SOP describes plans to devote resources to enforcing the tax laws against taxpayers who attempt to avoid paying their tax obligations. All compliance efforts will be consistent with the Secretary of the Treasury's August 10, 2022, directive that IRA resources are not used to increase the share of small businesses or households earning \$400,000 or less that are audited relative to historical levels. We will use the additional resources provided under the IRA to address high-dollar compliance issues, such as those related to complex partnership structures, large corporations, and high-income individuals. IRS is investing in training existing and new employees, hiring across the Operating Divisions to rebuild our enforcement resources and implementing modern technology and data analytics capabilities to support the success of our efforts.

Effective employee training is fundamental to the agency's ability to fairly enforce tax laws. The SOP contains several initiatives and projects that will focus on providing high-quality training for new hires and existing employees that is sufficiently robust to equip employees with the skills to succeed while remaining flexible enough to meet individual employees' needs. Our goal is not to provide a standard training program to all employees but rather to tailor each employee's professional development program to both their existing knowledge, skills and professional experience as well as the specific work that they will perform. The full scope and detail of these initiatives are still being

**The IRS Needs to Leverage the Most Effective Training  
for Revenue Agents Examining High-Income Taxpayers**

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developed as part of the implementation process and the impact of these implementation activities will take time to fully realize.

Attached is our response to your recommendations. If you have any questions, please contact me, or members of your staff may contact Carollynn Lear, Senior Advisor to the Deputy Commissioner, Services & Enforcement (Carollynn.J.Lear@IRS.gov).

Attachment

## The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers

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Attachment

**RECOMMENDATION 1:** The IRS Commissioner should ensure that the IRS leverages the LB&I Division's extensive knowledge base for auditing global high-wealth taxpayers by embracing its current HII training content and provide revenue agent new hires, responsible for income tax examinations, HII training commensurate with the intent of IRA funding.

**CORRECTIVE ACTION:** We agree. Hiring new employees and retaining current employees is a critical component of the IRS's plans to implement the Inflation Reduction Act and the IRS is developing a comprehensive plan to train new hires and existing employees that will examine high-income taxpayers as well as other priorities detailed in the SOP. The SOP contains several initiatives and projects focused upon 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 ensure that existing knowledge and experience, including LB&I's extensive knowledge base for auditing high-income taxpayers, will be considered and incorporated into curriculum design and creation and provided to those revenue agents whose job duties include examining high-income taxpayers.

**RESPONSIBLE OFFICIAL:** Chief Human Capital Officer

**IMPLEMENTATION DATE:** Ongoing

**CORRECTIVE ACTION MONITORING PLAN:** IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 2:** The IRS Commissioner should ensure that revenue agent new hires, responsible for income tax examinations, receive Form 1040 individual tax return training.

**CORRECTIVE ACTION:** We partially agree. The IRS's training model is not one-size-fits-all; it provides training content that meets each individual employee's needs based on the work they will perform and their existing knowledge, skills, and experience. When the new hire already has the knowledge, skills, and experience to perform Form 1040 individual tax return audits, it would not be productive to require the employee to complete the Form 1040 training. The IRS will strategically focus on hiring employees with the education and experience to examine high-income and high-wealth taxpayers and will provide these new hires a level of training appropriate to their existing knowledge, skills, and experience in preparation for the work they will perform. For early-career new hires, the IRS will continue to provide the appropriate level of training, including 1040 individual tax return training.



**The IRS Needs to Leverage the Most Effective Training  
for Revenue Agents Examining High-Income Taxpayers**

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**RESPONSIBLE OFFICIALS:** Chief Human Capital Officer

**IMPLEMENTATION DATE:** Ongoing

**CORRECTIVE ACTION MONITORING PLAN:** N/A

**RECOMMENDATION 3:** The Commissioner, LB&I Division, should ensure that the examination plans are more transparent in showing the examination effort on individual high-income taxpayers.

**CORRECTIVE ACTION:** We partially agree. The IRS is developing an enterprise-wide examination plan for FY 2024 and future years. An enterprise-wide examination plan will consider all available resources and allocate available examination resources to compliance priorities, high income taxpayers, large corporations and complex partnerships.

**RESPONSIBLE OFFICIALS:** Deputy Commissioner for Services and Enforcement

**IMPLEMENTATION DATE:** 09/30/2024

**CORRECTIVE ACTION MONITORING PLAN:** IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 4:** The Commissioners, SB/SE and LB&I Divisions, should coordinate examination planning to ensure that the examination plans will follow the Secretary of Treasury Directive to prioritize coverage of individual high-income earners over \$400,000.

**CORRECTIVE ACTION:** We agree. Employing centralized planning and strategy will ensure the enterprise examination plan will follow the Treasury Secretary's directive to prioritize areas where compliance has eroded the most – complex tax returns for wealthy individuals, large corporations and large partnerships while at the same time not increasing audit rates above historic levels for households making less than \$400,000 and small businesses. Work towards this centralized compliance planning has been underway during FY23.

**RESPONSIBLE OFFICIALS:** Deputy Commissioner for Services and Enforcement

**IMPLEMENTATION DATE:** 09/30/2024

**CORRECTIVE ACTION MONITORING PLAN:** IRS will monitor this corrective action as part of our internal management system of controls.

**RECOMMENDATION 5:** The IRS Commissioner should establish a definition for high-income taxpayers in reference to examination compliance for purposes of focusing on income levels above which taxpayers have unique and varied opportunities for tax avoidance.

**CORRECTIVE ACTION:** We do not agree. In accordance with the Treasury Secretary's directive, the IRS will focus on high-income high-wealth individuals, large corporations and complex partnerships that present a high risk of noncompliance while at the same time not increasing audit rates above historic levels for households making less than \$400,000 and small businesses. The IRS is working to implement the Treasury Secretary's directive and will further detail how this directive will be applied in practice to IRS examinations. However, a static and overly proscriptive definition of high-income taxpayers for purposes of focusing on income levels above which taxpayers have unique and varied opportunities for tax would serve to deprive the IRS of the agility to address emerging issues and trends.

**RESPONSIBLE OFFICIALS:** N/A

**IMPLEMENTATION DATE:** N/A

**CORRECTIVE ACTION MONITORING PLAN:** N/A

**RECOMMENDATION 6:** The IRS Commissioner should further refine the examination activity codes scheme to better identify high-income individual returns.

**CORRECTIVE ACTION:** We partially agree to the extent this is related to the Treasury's Secretary's pledge. The IRS has several methods to identify, track, and report issues identified through the examination process as well as other relevant taxpayer data to improve tax administration. Activity codes are one, but not the only way to track issues and other examination data. For example, IRS utilizes project and tracking codes to track examination cases and to identify examination issues. Additionally, the IRS can utilize ad hoc data reporting and analysis to query examination data to pinpoint a particular case segment for further analysis.

As part of the work being undertaken to implement the Treasury Secretary's directive to not increase audit rates above historic levels for households making less than \$400,000 and small businesses, and to transition to coordinated examination planning across the business units, the IRS will identify the best method to identify and track high-income examinations.

**RESPONSIBLE OFFICIALS:** N/A

**IMPLEMENTATION DATE:** N/A

**CORRECTIVE ACTION MONITORING PLAN:** N/A

Glossary of Terms

Term	Definition
Adjusted Gross Income	Total individual income, as defined by the Internal Revenue Code, less statutory adjustments - primarily business, investment, and certain other deductions.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
Revenue Agent	Employees in the Examination function who conduct face-to-face examinations of more complex tax returns filed by individuals and entities such as businesses, corporations, partnerships, and organizations. A revenue agent applies an expert knowledge of the Internal Revenue Code, revenue rulings, court decisions, and agency policies, regulations, and practices to determine the correct tax liability.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Total Positive Income	In general, TPI is the sum of all positive amounts shown for the various sources of income reported on an individual income tax return and, thus, excludes losses.

## Appendix VIII

### Abbreviations

FY	Fiscal Year
GHW	Global High Wealth
GS	General Schedule
HII	High-Income Initiative
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
IRSU	Internal Revenue Service University
LB&I	Large Business and International
OJI	On-the-Job Instructor
OPM	Office of Personnel Management
SB/SE	Small Business/Self-Employed
TFA	Taxpayer First Act
TIGTA	Treasury Inspector General for Tax Administration
TPI	Total Positive Income



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