$80 Billion to the IRS: What It Means for You

You may have noticed that the IRS is in a bad way.

It has a backlog of millions of unprocessed paper tax returns, and taxpayers can't get through to the agency on the phone. Congress noticed and took action by passing a massive funding of the IRS in the recently enacted Inflation Reduction Act.

The IRS will get an additional $80 billion over the next decade. This includes $35 billion for taxpayer services, operations support, and business systems. Among other things, the IRS plans to use these funds to update its antiquated IT systems (some of which date back to the 1960s), improve phone service, and speed up the processing of paper tax returns.

Despite what you may have heard in the media, the IRS will not expand by 87,000 new employees. It will still be smaller than it was 30 years ago. It may grow by 20,000 to 30,000 workers over the next decade, and the number of revenue agents could increase to 17,000 by 2031—over twice as many as today.

The IRS will have an additional $45 billion to spend on enforcement. Treasury Secretary Janet Yellen has promised that IRS audit rates will remain at "historical levels" for taxpayers earning less than $400,000 annually.

Audit rates will rise for taxpayers earning $400,000 or more per year. If you're in this group, it's wise to plan ahead to avoid trouble with a beefed-up IRS.

You should keep complete and accurate records and file a timely tax return. Of course, this is something you should be doing anyway.

Here are a few special areas of concern:

- **Cryptocurrency.** You can expect increased IRS audits dealing with cryptocurrency transactions. If you're one of the millions of Americans who engage in such transactions, make sure you keep good records and report any income you earn.
- **S Corporations.** If you're an S corporation shareholder-employee, you should have your S corporation pay you an arguably reasonable salary and benefits, and document how you arrived at the amount.
- **Syndicated Conservation Easements.** Be aware that the IRS is auditing all of these deals, and its scrutiny of them will likely grow.
- **Offshore Accounts.** You're supposed to report these to the U.S. Treasury. Failure to do so subjects you to substantial penalties. In recent years, the IRS has gone after banks and bank account holders who hide assets in offshore accounts. In future years, we can expect the IRS to place even greater emphasis on identifying and tracking such offshore assets.
- **Partnerships.** Partnerships and multi-member LLCs taxed as partnerships (this describes most of them) are already the subject of the Large Partnership Compliance program, which uses data analytics to select large partnership returns for audit. The IRS will likely devote more resources to this program in the future.