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TAX IRS

## What the IRS's \$80 billion in funding means for your tax return

By **Lynnley Browning** November 22, 2022, 10:38 a.m. EST 4 Min Read



Bloomberg News

Should taxpayers expect more scrutiny from the Internal Revenue Service, a chunk of whose \$80 billion in additional funding will pay for more auditors to ferret out tax cheats?

One factor that may temper the angst for affluent investors, according to wealth advisors: a shortage of trained accountants amid a coming wave of IRS employees retiring.

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Nearly \$46 billion of the IRS's extra funding for the next 10 years is earmarked for [enforcement, or scrutinizing and auditing returns](#) in order to collect unpaid tax dollars. That objective hinges in part upon hiring and training revenue agents to scour returns filed by individuals, corporations and partnerships.

A product of President Joe Biden's Inflation Reduction Act last April, the funding boost envisions the IRS [hiring roughly 87,000 employees through 2023](#), including auditors, technology specialists and customer service representatives, the Treasury Department estimates. But the figure doesn't account for the army of aging employees – [an estimated 52,000](#) – who the IRS says will be eligible to retire or will resign within the next six years.

It all means competition for talent. Bloomberg estimates that the number of [employed accountants and auditors fell by 17%](#) between 2019 and 2021. Likewise, the number of [students graduating with an accounting degree continues to drop](#) and was down nearly 9% in 2020 compared to its peak in 2012, according to a 2021 study by the American Institute of CPAs that provided the most recent data.



"Even if they deploy all that capital to hire agents to be in the field, they'll have a hard time over the near term," said Matt Chancey, an advisor with Micel Financial in Tampa, Florida. "It's not like there's a glut of people sitting on the sidelines saying, 'Hey, I can't wait to go join the IRS!'"

Scott **Bishop**, the executive director of wealth solutions at Avidian Wealth Solutions in Houston, said the agency would be competing for private sector accountants who get paid more.

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The increased funding is intended to shore up the nation's tax collector, which has been on a decline for at least a decade amid an exodus of workers, perennial Congressional budget cuts and aging technology.

Nearly \$46 billion will go to enforcement, while some \$34 billion will go to improving the IRS's Flintstones-style system, immortalized in a Washington Post photo last August showing [legions of paper files strewn across cafeteria tables](#) at the agency's Austin, Texas, offices. The latter chunk will fund upgrades of IRS computer systems, some of which date to the Kennedy era, make internal operations more efficient, and make it easier for taxpayers, known in tax-agency speak as "customers," to do what was [all but impossible last filing season](#): reach an IRS employee on the phone.

The agency's [backlog of unprocessed paper returns](#) — more than 21 million as of last June, according to the Taxpayer Advocate Service, the IRS's official watchdog — exceeded that of the prior year.

"We will soon find out whether the upcoming filing season adds a similar chapter to this series or whether the IRS can work through its backlog, process tax returns and correspondence quickly, and answer its phone calls," National Taxpayer Advocate Erin Collins wrote on Nov. 10.

The Treasury Department, which oversees the IRS, says that increased enforcement is aimed at raking in some of the roughly \$600 billion a year in taxes that goes uncollected. The figure, known as the [tax gap](#), translates into \$7 trillion over the next decade, an amount equal to 3% of GDP or all income taxes paid by the lowest earning 90 percent of taxpayers.



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Audit rates have been declining for roughly a decade. In 2021, only 4.5 out of every 1,000 individuals who earned between \$200,000 and \$1 million — less than half a percent of that group — were audited, [according to](#) Syracuse University's Transactional Access Records Clearing House, a research center known as TRAC that obtains internal IRS data under a court order. In 2011, the odds for that group were roughly 10.5%.

The rate at which millionaires were audited in 2012, when fewer of them existed, fell 72% by 2020, when fewer than two of every 100 taxpayers earning more than \$1 million were scrutinized, TRAC data shows.

Biden has said that the increased funding won't target people who earn less than \$400,000.

The agency has several new areas of scrutiny. A law that went into effect this year requires cash apps and online marketplaces such as Venmo and eBay to send tax documents to millions of Americans [if they receive \\$600 or more](#) in a calendar year. The previous threshold was \$20,000 earned through at least 200 transactions.

The IRS began [asking taxpayers about their crypto holdings](#) in 2021, posing the question at the top of the 1040 individual federal return. The agency considers digital currencies not money, but rather "property," like stocks or gold, and will [require all U.S.-based exchanges to issue tax documents](#) to investors and the IRS starting next year.



## TAX

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The requirement, buried in the \$1 trillion infrastructure law passed last year, mirrors one for brokerages and has flown under the radar.

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The two areas "will affect people at all income levels," said Steven Novack, a senior financial advisor at Altfest Personal Wealth Management in New York. Other points of interest to the IRS include high-income earners with partnerships, trusts, S corporations, private foundations and large gifts.

"These areas are not as easily documented, like a job or brokerage account," Novack said.

**Bishop** argued that small businesses, gig workers and cash-intensive operations like restaurants are likely in the cross hairs.

"These are the people who are really going to be hit," he said. "You don't need 10,000 agents to go after the billionaire tax class because their aren't that many billionaires."

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