HUSCH BLACKWELL

THOUGHT LEADERSHIP

LEGAL UPDATES

PUBLISHED: SEPTEMBER 21, 2023

IRS Takes Aim at High Earners, Large Partnerships, and Corporations Using AI

Services

Artificial Intelligence

Tax

Tax Controversy

Professionals

ROBERT M. ROMASHKO

WASHINGTON:

202.378.2310

ROBERT.ROMASHKO@HUSCHBLACKWELL.COM

MEGAN CHRISTOPHER

MILWAUKEE:

414.978.5651

MEGAN.CHRISTOPHER@HUSCHBLACKWELL.COM

When the Inflation Reduction Act was passed last year, the legislation included massive funding increases for the Internal Revenue Service (IRS). The initial narratives regarding the funding increases focused primarily on "modernizing" the agency's out-of-date technology and providing greater support for taxpayers, particularly during the chaos of tax season when the agency is inundated with a backlog of tax returns. The IRS's desire to crack down on tax evasion was often relegated to the background, when mentioned at all, or else limited to wealthy individuals and corporations.

Earlier this month, however, the secondary narrative concerning tax evasion moved to center stage. The IRS announced that it is turning to artificial intelligence (AI) and machine-learning tools to target high-earning and high-net-worth individuals, as well as large corporations and partnerships.

On September 8, the IRS outlined plans to implement these efforts, including the following:

By the end of September, the IRS will open audits of 75 partnerships with more than $10 billion in assets, choosing the targets and issues via AI.

In October, the IRS will send "compliance alerts" to another 500 large partnerships identifying discrepancies on their balance sheets and demanding explanations.

In 2024, dozens of revenue agents would target approximately 1,600 taxpayers who the IRS believes owe at least $250,000 apiece.

In the coming fiscal year, the IRS plans to increase scrutiny of digital assets and foreign bank accounts, specifically noting that these are vehicles for tax evasion and avoidance. The IRS announced that it has uncovered a potential non-compliance rate of 75% for taxpayers using digital currency exchanges and hundreds of individuals who have failed to report foreign accounts.

The IRS noted that its scrutiny will extend to hedge funds, real estate investment partnerships, publicly traded partnerships, and large law firms.

What this means to you

Amid burgeoning federal budget deficits, the IRS is under ever-greater pressure to reduce incidences of noncompliance with tax law and is investing significant technological resources into accomplishing this goal.

Individuals and entities that receive notices or other correspondence from IRS in the coming months—and who believe they fall into the targeted groups—should be wary; based on the IRS's announcements and its new targeting tools, it is highly likely that recipients of notices under these initiatives are receiving them because the IRS already believes they owe additional tax; significant penalties and interest, in addition to large tax assessments, could result.

Contact us

If you have questions regarding the newly announced IRS initiative or related audit defense issues, contact Husch Blackwell's tax controversy attorneys.