

IRS releases 2021 Data Book, touts recent hike in upper-income audit rates

The Internal Revenue Service on May 26 released its 2021 Data Book—which provides detailed statistics on returns filed and taxes collected, enforcement, taxpayer assistance, the IRS budget and workforce, and other selected activities for FY 2021—along with supplemental audit numbers that show a marked increase in audit rates for upper-income taxpayers in the first seven months of FY 2022.

URL: <https://www.irs.gov/pub/irs-pdf/p55b.pdf>

Data book highlights

The data book notes, among other things, that in FY 2021 (October 1, 2020, through September 30, 2021) the IRS collected more than \$4.1 trillion in gross taxes; processed more than 261 million tax returns and other forms; and issued more than \$1.1 trillion in tax refunds, including \$585.7 billion in economic impact payments and advance child tax credits.

On the compliance side, the data book provides statistical details on activities such as audits of corporate and individual tax returns, collections of delinquent tax payments, resolution of cases by the IRS's Appeals Division, and the disposition of civil and criminal tax investigations.

In FY 2021, the IRS closed 738,959 tax return audits, resulting in nearly \$26.8 billion in recommended additional tax. It also completed 2,766 criminal investigations in three areas: legal-source tax crime cases (which involve activities, industries, and occupations that generate legitimate income or threats to the tax system); illegal-source financial crime cases (which relate to proceeds derived from unlawful sources such as money laundering); and narcotics-related financial crime cases (which involve investigations of narcotics-related tax and money-laundering crimes, often in cooperation with the Justice Department and other law-enforcement agencies).

Supplemental audit numbers

In a statement released in conjunction with the data book, the Service offers some additional context around its audit activities—an issue that has become a point of contention among some congressional Democratic taxwriters, who in recent hearings have argued that the IRS has disproportionately focused its compliance efforts on lower-income taxpayers, particularly those who claim the earned income tax credit (EITC), because those returns are simpler and less expensive to audit than the more complex returns filed by many wealthier individuals. (For prior coverage, see *Tax News & Views*, Vol. 23, No. 18, May 20, 2022, and *Tax News & Views*, Vol. 23, No. 9, Mar. 18, 2022.)

URL: <https://www.irs.gov/pub/irs-utl/statement-for-updated-audit-rates-ty-19.pdf>

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220520_1.html

URL: https://dhub.blob.core.windows.net/dhub/Newsletters/Tax/2022/TNV/220318_1.html

The Service notes in its statement that the information in the data book is current as of September 2021 and does not reflect the impact of ongoing compliance efforts involving open tax years. For example, the Service

explains that it can continue to pursue new enforcement actions for tax year 2019 returns through at least 2023 and that, particularly in the case of higher-income taxpayers, “examination activity is often initiated later in the statutory period.”

To illustrate that point, the Service states that data for the first seven months of FY 2022 (covering October 1, 2021 through May 1, 2022, and thus not reflected in the data book) show an uptick in audit rates “for taxpayers in every income category above \$100,000.” According to the supplementary data, audit rates for income categories between \$500,000 and \$1 million doubled to 0.6 percent as of May 1 (compared to 0.3 percent as published in the data book); audit rates for the \$1 million to \$5 million category more than doubled to 1.3 percent (compared to 0.6 percent in the data book); and audit rates for taxpayers with income over \$10 million have more than quadrupled to 8.7 percent (compared to 2.0 percent in the data book).

At the lower end of the income scale, the Service notes that the audit rate for EITC claimants is 0.8 percent as of May 1, 2022—unchanged from the level cited in the new data book.

Resource constraints led to long-term audit rate decline

But the Service also notes that while the FY 2022 statistics provide “a more real-time” picture of the agency’s efforts to address high-end noncompliance, “resource constraints limit the work [it] is able to do.” The agency’s audit ranks have fallen to roughly 6,500 front-line revenue agents—a situation it has attributed to the combined effects of employee attrition and congressionally mandated budget cuts over the last several years—and, as a result, “levels of enforcement activity at the high-end of the distribution, particularly for global high net-worth individuals, large corporations, and complex structures like partnerships are far lower than in the past.”

On the individual side of the tax code, the Service notes that between tax years 2010 and 2017, audit rates fell by 77.5 percent for taxpayers with income between \$1 million and \$5 million, 77.1 percent for taxpayers with income between \$5 million and \$10 million, and 73.1 percent for those with income of \$10 million or more. Audit rates for returns claiming the EITC declined by 44.8 percent.

Audit rates for business returns likewise show steep declines over the same period. For example, audits of corporate returns dropped by 34.8 percent for taxpayers showing balance sheet assets of \$20 billion or more, 52.2 percent for taxpayers with assets between \$5 billion and \$20 billion, and 65 percent for taxpayers with assets between \$1 billion and \$5 billion. Audit rates for partnership returns fell by 79.3 percent and audits of S corporation returns declined by 53.2 percent, the Service says.

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