



5x5 series: Insights and actions

# The Inflation Reduction Act and Greater IRS Enforcement

The Inflation Reduction Act includes a commitment of approximately \$80 billion to the IRS over a 10-year period. A significant portion of this funding will go directly to greater IRS enforcement. Taxpayers may want to take heed now and prepare proactively for audit defense in light of the specter of greater IRS enforcement.



## 5 insights you should know

\$80 billion has been promised to the IRS as part of IRA. \$45.64 billion of that amount is earmarked for tax enforcement. While it may take time for the IRS to see benefits from IRA, there may well be greater enforcement in the near future.

\$25.33 billion of the total \$80 billion is dedicated to IRS' operations support, while \$4.75 billion is dedicated to IRS' business systems modernization. While these amounts are not dedicated directly to tax enforcement, they will likely indirectly assist enforcement in "real time."

President Biden has nominated a former acting IRS commissioner to serve as the next IRS commissioner. Should Congress confirm a nominee with prior experience at the IRS and relevant private sector experience, that new commissioner may have greater ability to effectively use this additional funding.

It may be too late to effectively defend an audit if a taxpayer first considers its defense only after receiving a notice of examination. The foundation of effective audit representation is typically built before a return comes under audit.

Proactive examination management typically yields a more efficient and effective audit defense compared to a reactive, passive style. A reactive approach may result in additional proposed adjustments and a failure to resolve issues at Exam or Appeals.

## 5 actions to take now

- 1 Seize this window to prepare for greater IRS enforcement.** While the increased enforcement funding resulting from IRA will likely take time to manifest itself, consider audit readiness projects and adopting best practices to prepare for heightened enforcement.
- 2 Be aware of this additional funding in IRA that will strengthen IRS enforcement.** These additional categories of funding will help modernize the IRS's operations support function and business systems. Such improvements will likely benefit IRS Exam teams. Proactive audit management is critical in this evolving environment.
- 3 Keep abreast of the new commissioner's actions.** A new commissioner with relevant experience may effectively use IRA's funding promised to the IRS. Taxpayers should stay actively attuned to news regarding the new commissioner's proposed plans and implemented actions to use that funding.
- 4 Engage in pre-audit readiness.** Consider a "mock audit"/risk analysis before being selected for examination, particularly if large UTPs or Form 8275s/8275-Rs are present. Consider document organization/retention and how best to document certain positions.
- 5 Be proactive from your first conversation with Exam.** Consider asking why the return was selected for examination and making an affirmative presentation for identified issues at the opening conference. Consider requesting open compliance files and making FOIA requests, as appropriate.

## Connect with us

**Jason Dimopoulos**  
Tax Principal  
Deloitte Tax LLP  
[jdimopoulos@deloitte.com](mailto:jdimopoulos@deloitte.com)

**Matthew Cooper**  
Tax Managing Director  
Deloitte Tax LLP  
[mattcooper@deloitte.com](mailto:mattcooper@deloitte.com)

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