TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

High-Income Individual Examinations Increased in Fiscal Year 2024, But Key Terms and Methodologies for Compliance With the 2022 Treasury Directive Remained Unresolved

July 10, 2025

Report Number: 2025-308-030

TIGTACommunications@tigta.treas.gov | www.tigta.gov

HIGHLIGHTS: High-Income Individual Examinations Increased in Fiscal Year 2024, But Key Terms and Methodologies for Compliance With the 2022 Treasury Directive Remained Unresolved

Final Audit Report issued on July 10, 2025 **Report Number 2025-308-030**

Why TIGTA Did This Audit

The Inflation Reduction Act (IRA) of 2022 provided $79.4 billion to the IRS over a decade. The IRA funding allocated $45.6 billion to enforcement activities and was intended in part to increase examinations of high-income taxpayers. However, as of March 2025, Congress subsequently reduced IRA funding to $37.6 billion, reducing the enforcement allocation to $3.8 billion.

Soon after the IRA was passed, the Secretary of the Treasury issued a memorandum (the 2022 Treasury Directive) to the IRS Commissioner directing the IRS not to use any additional resources to increase audits on small businesses or households earning below $400,000 per year.

This audit was initiated to review the IRS's examination plan to ensure that IRA funding was used to increase enforcement on high-income taxpayers with complex tax filings and high-dollar noncompliance, while not increasing enforcement on households and small businesses earning under $400,000.

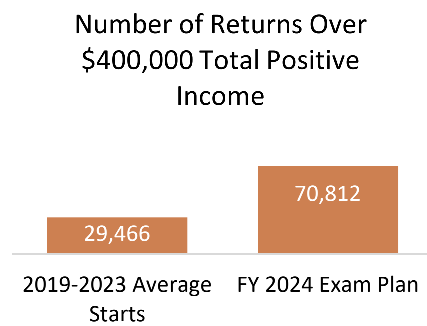
Impact on Tax Administration

In Fiscal Year (FY) 2024, the IRS implemented an enterprise-wide examination plan. According to the IRS, it was designed to create a more agile organization, make centralized resource decisions, and to ensure compliance with the 2022 Treasury Directive.

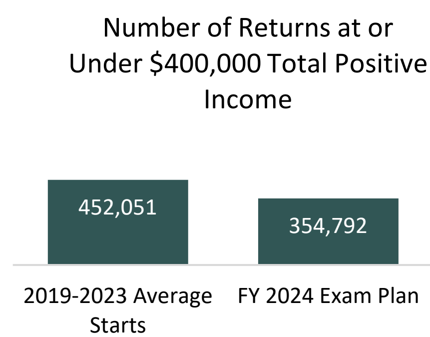
What TIGTA Found

The IRS's FY 2024 enterprise-wide examination plan signaled a shift towards auditing high-income individuals, which we found consistent with the goals of the 2022 Treasury Directive.

Our comparison showed that the planned audits for high-income taxpayers in the Small Business/Self-Employed (SB/SE) and Large Business and International (LB&I) Divisions was almost 2.5 times the average of the audits started in FYs 2019 through 2023.



In addition, the planned FY 2024 examination starts did not increase examination rates on taxpayers earning under $400,000. The actual FY 2024 examination starts for both the SB/SE and LB&I Divisions indicate that the IRS was on track to meet the 2022 Treasury Directive to not increase examination rates on taxpayers with Total Positive Income at or under $400,000. The combination of more high-income examination starts with substantially fewer lower-income audits increases the likelihood that the IRS will achieve the goals set out in the 2022 Treasury Directive.



However, the IRS has not defined key terminology or aspects of its methodology for compliance with the 2022 Treasury Directive. The IRS stated that the FY 2024 plan was created with the assumptions available at the time. Any subsequent decisions about these issues could affect the effectiveness of future examination plans in meeting compliance requirements.

Overall, the IRS made significant progress hiring revenue agents (who conduct examinations of taxpayers) in FY 2024. However, in January and February 2025, the federal government underwent several cost-cutting initiatives, including a hiring freeze and other staff reduction efforts. This will likely impact the long-term goals of the 2022 Treasury Directive, which remains in effect per the IRS.

What TIGTA Recommended

We made no recommendations in this report. IRS officials were provided an opportunity to review the draft report and did not provide any comments.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

July 10, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – High-Income Individual Examinations Increased in Fiscal Year 2024, But Key Terms and Methodologies for Compliance With the 2022 Treasury Directive Remained Unresolved
(Audit No.: 2024308009)

This report presents the results of our review of the Internal Revenue Service's (IRS) examination plans to increase enforcement on high-income taxpayers with complex tax filings and high-dollar noncompliance while not increasing audit rates for taxpayers earning less than $400,000 per year. This review was part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Tax Compliance and Enforcement*.

Although we made no recommendations in this report, we provided IRS officials an opportunity to review the report. IRS management did not provide us with any report comments. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Background

In August 2022, the Inflation Reduction Act (IRA) was enacted, providing $79.4 billion to the Internal Revenue Service (IRS) over a decade, including $45.6 billion for enforcement activities.[1] However, as of March 2025, Congress subsequently reduced IRA funding to $37.6 billion, reducing the enforcement allocation to $3.8 billion.[2] The enforcement funding was partially intended to increase examinations of high-income taxpayers.

In August 2022, the Secretary of the Treasury (Treasury Secretary) issued a directive (the 2022 Treasury Directive) to the IRS requiring that no additional resources would be used to increase audits on small businesses or households earning below $400,000 per year.[3] According to the IRS, the directive remains in effect. In April 2023, the IRS Commissioner testified at a House Ways and Means Committee Hearing that the audit coverage rate the IRS will use to meet the 2022 Treasury Directive will be the same as the historical audit coverage rate from Tax Year 2018.[4] However, we reported in August 2024 that the IRS and the Department of the Treasury (Treasury Department) had not yet agreed on an approach to address the 2022 Treasury Directive.[5]

In April 2023, the IRS released the *Inflation Reduction Act Strategic Operating Plan* (IRA Plan) to outline IRA funding priorities.[6] In the IRA Plan, the IRS reiterated the commitment not to use IRA resources to increase enforcement on households and small businesses with Total Positive Income (TPI) at or under $400,000.[7] In addition, it outlines 5 transformation objectives and 42 initiatives focused on improving services, delivering cutting-edge technology, and addressing high-dollar compliance areas, such as complex partnership structures, large corporations, and high-income individuals.

The IRA Plan also prominently featured hiring and training, with a specific focus on expanding enforcement of complex tax filings and high-dollar noncompliance. In Fiscal Year (FY) 2024, the IRS hired 4,048 new revenue officers and revenue agents. However, in January 2025, a Presidential Memorandum implemented a hiring freeze.[8] In February 2025, the IRS began reductions in force (RIF) and reorganization plans as part of a broader effort to shrink the federal

[1] Pub. L. No. 117-169, 136 Stat. 1818. IRA § 10301.

[2] The Fiscal Responsibility Act of 2023 (Pub. L. No. 118-5, 137 Stat. 10) rescinded $1.4 billion; the Further Consolidated Appropriations Act, 2024 (Pub. L. No. 118-47, 138 Stat. 460) rescinded $20.2 billion; and the Full-Year Continuing Appropriations and Extensions Act, 2025 (Pub. L. No. 119-4) rescinded another $20.2 billion.

[3] See Appendix II for Correspondence, Secretary of the Treasury Janet Yellen to IRS Commissioner Charles Rettig. (August 10, 2022).

[4] *Hearing with Commissioner of the IRS, Daniel Werfel, Before the H. Comm. on Ways and Means*, 118th Cong. (2024).

[5] TIGTA, Report No. 2024-308-043, *The IRS Has Made Limited Progress Developing the Methodology to Comply With the Treasury Directive to Not Increase the Audit Rate for Taxpayers With Incomes Below $400,000 Due to Planning and Implementation Challenges*, p. 7 (August 2024).

[6] IRS Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023 - 2031* (Rev. April 2023).

[7] See Appendix III for a glossary of terms.

[8] *Hiring Freeze*, 90 Fed. Reg. 8247 (January 2025).

government's workforce.[9] These measures included permitting eligible employees to resign under the Deferred Resignation Program (DRP) and commencing early retirement initiatives for federal employees, as well as employment actions to terminate probationary employees. According to a recent TIGTA report, more than 11,000 IRS employees (or 11 percent of the IRS's workforce) were either approved for the DRP or received termination notices during their probationary period.[10] Further resignations are anticipated with the offering of a second DRP by the Department of Treasury in April 2025. Although the IRS made substantial progress with its hiring goals in FY 2024, the rescissions of IRA funds, the hiring freeze, the actions for probationary employees, and future reductions in force make the IRS's future hiring plans uncertain and will likely impact the goals established in the 2022 Treasury Directive.

In FY 2024, the IRS announced plans for a new leadership structure at the agency to reflect new transformation goals. This change included a new Chief Tax Compliance Officer role, overseeing IRS compliance work across business operating divisions (BOD). The IRS also implemented an enterprise-wide examination plan (examination plan) for FY 2024 which, according to the IRS, was designed to create a more agile organization and make centralized resource decisions. In previous years, each individual BOD created a separate examination plan. This change is in line with our prior report which recommended that the IRS establish an annual enterprise-wide audit planning process aligned with their multi-year, comprehensive strategic plan.[11] This audit focuses on the development and implementation of the FY 2024 examination plan and the IRS's intention to emphasize audits of high-income taxpayers.

Results of Review

The Fiscal Year 2024 Enterprise Examination Plan Shifted Towards Auditing High-Income Individuals

The FY 2024 examination plan showed an increase in examination starts for individual returns with TPI over $400,000 (high-income returns) as a percentage of all individual returns examined (excluding nonfilers) when compared to the average examination starts in prior years (FYs 2019 through 2023).

As shown in Figure 1, examinations of high-income returns made up 17 percent of total audit starts in the FY 2024 examination plan, almost 2.5 times the average number of high-income examinations started in FYs 2019 through 2023. In addition, the planned FY 2024 examination starts did not increase examination rates on taxpayers earning at or under $400,000. The combination of more high-income examination starts with substantially fewer lower-income audits increases the likelihood that the IRS will achieve the goals set forth in the 2022 Treasury Directive.

---

[9] Memorandum to Heads of Executive Departments and Agencies, *Guidance on Agency RIF and Reorganization Plans Requested by Implementing the President's "Department of Government Efficiency" Workforce Optimization Initiative* (February 2025).

[10] TIGTA Report No. 2025-IE-R017, *Snapshot Report: IRS Workforce Reductions as of March 2025* (May 2025).

[11] TIGTA, Report No. 2023-30-008, *Opportunities Exist for the IRS to Develop a More Coordinated Approach to Examination Workplan Development and Resource Allocation* (February 2023).

Figure 1: The Number of FY 2024 Examinations Planned for Individual Income Tax Returns With TPI Over $400,000 Showed a Significant Increase From the Historical Average of Examinations Started During FYs 2019 Through 2023

Examinations Started/Planned	FYs 2019 through 2023 Average Actual Starts	FY 2024 Examination Plan
Total Number of Returns	481,517	425,604
Returns TPI at or Under $400k	452,051	354,792
Returns TPI Over $400k	29,466	70,812
Percentage Returns TPI at or Under $400k	94%	83%
Percentage Returns TPI Over $400k	6%	17%

Source: Analysis of open and closed individual income tax return examinations started during FYs 2019 through 2023, and the IRS's FY 2024 examination plan.

The Small Business/Self-Employed (SB/SE) and Large Business and International (LB&I) Divisions audit most complex and high-income returns at the IRS. As shown in Figure 2, both the SB/SE and LB&I Divisions' planned examination starts show an increase compared to the historical average for both divisions, indicating the IRS was on track to meet the 2022 Treasury Directive.

Figure 2: The FY 2024 Examination Plan for the SB/SE and LB&I Divisions Indicated They Were on Track to Meet the 2022 Treasury Directive[12]

SB/SE and LB&I Examination Starts	FYs 2019 through 2023 Average Actual Starts	FY 2024 Examination Plan
SB/SE Division:		
Total Number of Returns	186,783	151,355
Number of Returns TPI at or Under $400k	163,625	88,006
Number of Returns TPI Over $400k	23,158	63,349
Percentage TPI at or Under $400k	88%	58%
Percentage TPI Over $400k	12%	42%
LB&I Division:		
Total Number of Returns	12,805	11,042
Number of Returns TPI at or Under $400k	7,121	4,157
Number of Returns TPI Over $400k	5,684	6,885
Percentage TPI at or Under $400k	56%	38%
Percentage TPI Over $400k	44%	62%

Source: Analysis of open and closed examinations started during FYs 2019 through 2023, and the IRS's FY 2024 examination plan.

[12] The analysis excludes nonfiler cases.

The shift to examining a greater percentage of returns with TPI over $400,000 was more pronounced in the SB/SE Division. For example, taxpayers with high-income returns averaged 12 percent of all individual returns examined in FYs 2019 through 2023 compared to 42 percent in FY 2024. As a result, the SB/SE Division planned to start audits on more than 40,000 additional high-income returns and about 76,000 fewer returns with TPI at or under $400,000 compared to the average for FYs 2019 through 2023.

Figure 2 also shows that FY 2024 examination starts for LB&I Division taxpayers with high-income returns were expected to increase from an average of 44 percent in FYs 2019 through 2023 to 62 percent of all examinations in the FY 2024 examination plan. As a result, the LB&I Division planned to start audits on over 1,000 additional high-income returns and almost 3,000 fewer returns with TPI at or under $400,000 compared to the average for FYs 2019 through 2023.

The Taxpayer Services function examines most taxpayers with TPI at or under $400,000. In May 2025, we reported that the IRS reduced actual Earned Income Tax Credit examination starts by 53 percent from FY 2023 to FY 2024. Although that review did not assess whether the IRS satisfied the 2022 Treasury Directive for Tax Year 2023 tax returns, by signficantly decreasing Earned Income Tax Credit examinations, the IRS increased the likelihood of achieving the goal to audit fewer tax returns of taxpayers with income at or under $400,000.[13]

In June 2024, we reported that the IRS had terminated its efforts to comply with a 2020 Directive from a previous Treasury Secretary that directed the IRS to audit at least 8 percent of taxpayers with incomes of $10 million or above.[14] The IRS stated that the audits were unproductive with high no-change rates. However, we found that many SB/SE Division examinations of taxpayers with incomes of $10 million or more were more productive than those in the $400,000 to under $10 million income range. Conversely, LB&I Division case selection methods in place prior to the 2020 Treasury Directive resulted in better productivity metrics when compared to post-2020 Treasury Directive results. Although the IRS terminated its efforts to comply with the 2020 Treasury Directive, the IRS's FY 2024 examination plan included a category for taxpayers with TPI over $10 million. With its new enterprise-wide examination planning process, the IRS could leverage resources between BODs more efficiently and effectively.

[13] TIGTA, Report No. 2025-308-020, *The IRS Reduced Earned Income Tax Credit Examinations in Fiscal Year 2024, but the Process to Mitigate Racial Disparity Needs to Be Defined,* p. 6 (May 2025).

[14] TIGTA, Report No. 2024-300-028, *The IRS Ceased Compliance With the $10 Million Taxpayer Treasury Directive in Favor of an Overall Focus on High-Income Taxpayer Noncompliance*, p. 8 (June 2024).

The methodology for defining high-income returns needs to be completed

As mentioned, we reported in August 2024 that the IRS and the Treasury Department had not finalized a method for measuring compliance with the 2022 Treasury Directive. We also reported that the IRS had not yet calculated the Tax Year 2018 base year audit coverage rate for the purpose of following the 2022 Treasury Directive. The IRS stated that the base year audit coverage rate would be included in the FY 2024 IRS Data Book, which will not be published until mid-May 2025. Without all definitions and methodologies in place, we cannot definitively say whether the IRS met the 2022 Treasury Directive and used comparisons between historical data and the FY 2024 actual starts for our analysis. IRS executives briefed us in November 2024 about their plans for the audit rate methodology but did not provide us with sufficient documentation on the IRS's efforts to measure compliance with the 2022 Treasury Directive.

In December 2023, the former IRS Commissioner stated he did not believe that finalizing a specific method was needed at the time because Tax Year 2023 returns were selected as the initial metric. IRS officials have stated that a large portion of the Tax Year 2023 returns will not be examined until FY 2025. However, the following issues identified in our August 2024 report still must be addressed to comply with the 2022 Treasury Directive:

- Small business definition and exclusions. The 2022 Treasury Directive covers small businesses as well as households with TPI at or under $400,000. Thus far, the Treasury Department and the IRS have not defined the term "small business" for the purpose of the directive. However, there were discussions to define a small business as having less than $10 million in assets, which is the threshold that the IRS currently uses to identify small businesses for examination purposes. Additionally, there has been no consensus on how the definitions would apply across different business structures (*e.g.*, partnerships, corporations, and S corporations), which have different implications for tax purposes.
- Data limitations. The IRS may not be using the most accurate data to compute its audit coverage rate and measure post-audit TPI. Our report recommended using another internal dataset not currently being considered by the IRS.
- Potential marriage penalty is not currently being considered. IRS management stated that the 2022 Treasury Directive made no distinction between married households filing jointly or filing separately, so the IRS would not make allowances in their calculation of high-income households. However, having one household TPI threshold for all examinations could result in situations where dual income married couples filing separately are less likely to be audited than married couples filing jointly, if neither spouse has TPI over $400,000 individually. If the combined income for the same dual income couple filing a joint return exceeds the high-income TPI threshold of $400,000, the joint filing couple is more likely to be audited, creating an unfair situation. The IRS indicated that any deliberations to date should not be considered as definitive determinations until such time as the methodology is finalized.

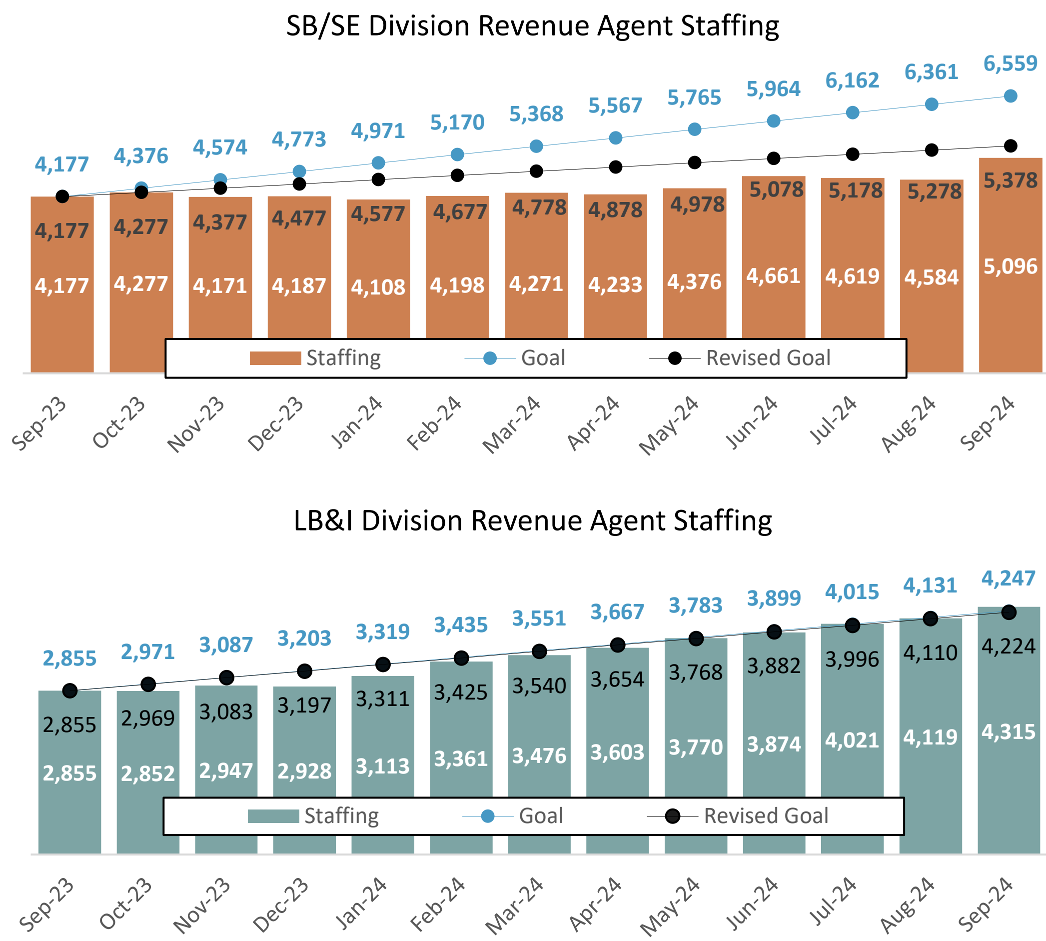
IRS officials stated that the FY 2024 examination plan was based on their interpretations of available information about exclusions, waivers, or definitions for the purposes of meeting the 2022 Treasury Directive. Any subsequent decisions about these issues could affect the effectiveness of future examination plans in meeting compliance requirements.

The IRS Made Significant Progress in Hiring Revenue Agents in Fiscal Year 2024, Although the Small Business/Self-Employed Division Did Not Meet Its Staffing Goals

While there were some mixed results, the IRS made significant overall progress in hiring revenue agents in FY 2024. As shown in Figure 3, the SB/SE Division did not meet its monthly hiring goals for most of FY 2024. However, revenue agent staffing increased from 4,177 in September 2023 to 5,096 (22 percent) in September 2024. Conversely, the LB&I Division achieved its goal for revenue agent staffing, increasing from 2,855 to 4,315 (51 percent) for the same time period.

In July 2024, the IRS decreased its revenue agent staffing goals for the full fiscal year after receiving revised projections of anticipated hiring following an analysis of applicants who were in the hiring and/or onboarding pipeline.

Figure 3: The SB/SE Division Failed to Meet the Revenue Agent Staffing Goals in FY 2024; However, the LB&I Division Met Their Hiring Goals



Source: IRS internal hiring reports.

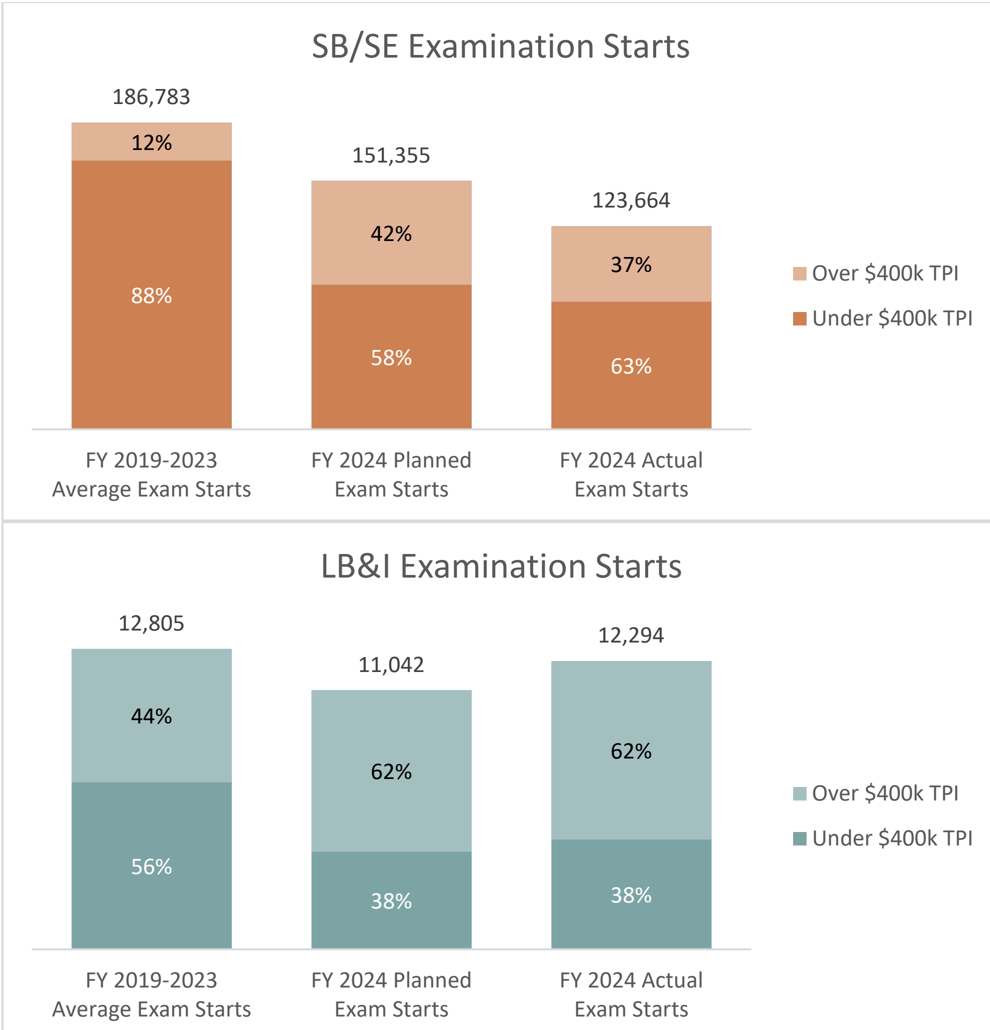
As of September 2024, the SB/SE Division was 282 revenue agents short of its revised year-end staffing goal. Internal employee transfers was one reason that the staffing goal was not met. For example, a total of 310 revenue agents transferred to different BODs (through April 2024), of which 243 were from the SB/SE Division. The LB&I Division exceeded its revised year-end staffing goal by 91 revenue agents.

As previously stated, the IRS is currently subject to a hiring freeze and other staffing reduction efforts. We previously reported that the number of revenue agents declined by approximately 31 percent due to the probationary termination notices and the first of two DRPs. Additionally, over 23,000 IRS employees applied for the second DRP. Depending on the outcome of these events, it may be difficult for the IRS to continue the shift to high-income audits. Revenue agents of the SB/SE and LB&I Divisions are typically assigned more complex audits than the divisions' other examination personnel.

Fiscal Year 2024 Examination Starts Indicate That the IRS Was on Track to Meet the 2022 Treasury Directive

The actual FY 2024 examination starts for both the SB/SE and LB&I Divisions indicate that the IRS was on track to meet the 2022 Treasury Directive to not increase examination rates on taxpayers with TPI at or under $400,000, with the SB/SE Division 25 percent below and the LB&I Division 18 percent below the respective historical averages. Figure 4 shows a comparison of actual FY 2024 examination starts for the SB/SE and LB&I Divisions to the historical average examinations started and the IRS's FY 2024 examination plan.

Figure 4: The SB/SE and LB&I Divisions' FY 2024 Planned and Actual Examination Starts Are Lower Than the Historical Average, But Have a Greater Percentage of Starts for High-Income Taxpayers[15]



Source: Analysis of open and closed examinations started during FYs 2019 through 2023, the IRS's FY 2024 examination plan, and actual FY 2024 examination starts data that was provided by the IRS.

As previously mentioned, the IRS was on track to meet the goals of the 2022 Treasury Directive by increasing the number of revenue agents and lowering the audit rate for individuals with TPI at or under $400,000. While the shift in resources in the FY 2024 examination plan and the IRS's hiring efforts in FY 2024 supported the goals of the 2022 Treasury Directive, further implementation of these efforts face challenges. The various efforts underway to reduce the size of the agency will likely have an impact on the long-term goals of the 2022 Treasury Directive.

[15] The analysis excludes nonfiler cases.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to review the IRS's examination plans to increase enforcement on high-income taxpayers with complex tax filings and high-dollar noncompliance while not increasing audit rates for taxpayers earning less than $400,000 per year. To accomplish our objective, we:

- Determined the applicable strategies, procedures, and controls that are in place for the IRS's strategic plan to meet the goal of ensuring that audit rates for taxpayers (households) earning at or under $400,000 per year are not increased, and audit rates for taxpayers (households) earning above this threshold are increased.
- Reviewed past IRS examination plans, interviewed IRS officials, and performed data analysis of the Audit Information Management System and the Individual Return Transaction File to determine the historical trends of the SB/SE and LB&I Divisions' examinations of households earning at or under $400,000 from FY 2019 through FY 2023.
- Determined if the SB/SE and LB&I Divisions effectively carried out their FY 2024 examination plan starts to meet targets and not exceed audit coverage thresholds of households earning at or under $400,000.
- Determined if the SB/SE and LB&I Divisions effectively carried out their FY 2024 examination plan starts to meet the goal to increase audit coverage of households earning more than $400,000.

Performance of This Review

This review was performed with information obtained from the SB/SE Division headquartered in Lanham, Maryland, and LB&I Division headquartered in Washington, D.C., as well as from the IRS Deputy Commissioner's office headquartered in Washington, D.C., during the period August 2023 through October 2024. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

We reviewed and analyzed computerized information obtained from IRS systems to include the Audit Information Management System and the Individual Return Transaction File. We evaluated the data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, and (3) interviewing agency officials knowledgeable about the data. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's FY 2024 examination plan, the quarterly review process for the examination plan, and initial plans for monitoring and reporting audit coverage rates regarding the 2022 Treasury Directive. We evaluated these controls by reviewing and analyzing relevant data, interviewing IRS employees, and reviewing the strategic examinations plan methodology.

Appendix II

The 2022 Treasury Directive

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

SECRETARY OF THE TREASURY

August 10, 2022

Charles P. Rettig
Commissioner
Internal Revenue Service
Washington, DC 20224

Dear Commissioner:

The Inflation Reduction Act includes much-needed funding for the IRS to improve taxpayer service, modernize outdated technological infrastructure, and increase equity in the tax system by enforcing the tax laws against those high-earners, large corporations, and complex partnerships who today do not pay what they owe.

These crucial investments have been a focus of the Biden Administration since the President's first day in office, and I was heartened to see the legislation pass the Senate this weekend.

Notwithstanding the changes that arose because of Republican challenges during the Byrd process, I write today to confirm the commitment that has been a guiding precept of the planning that you and your team are undertaking: that audit rates will not rise relative to recent years for households making under $400,000 annually.

Specifically, I direct that any additional resources—including any new personnel or auditors that are hired—shall not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels. This means that, contrary to the misinformation from opponents of this legislation, small business or households earning $400,000 per year or less will not see an increase in the chances that they are audited.

Instead, enforcement resources will focus on high-end noncompliance. There, sustained, multi-year funding is so critical to the agency's ability to make the investments needed to pursue a robust attack on the tax gap by targeting crucial challenges, like large corporations, high-net-worth individuals and complex pass-throughs, where today the IRS has resources to initiate just 7,500 audits annually out of more than 4 million returns received.

This is challenging work that requires a team of sophisticated revenue agents in place to spend thousands of hours poring over complicated returns, and it is also work that has huge revenue potential: indeed, an additional hour auditing someone making more than $5 million annually generates an estimated $4,500 of additional taxes collected. This is essential work that I know the IRS is eager to undertake.

For regular taxpayers, as you emphasized last week, the result of this resource infusion will be a lower likelihood of audit by an agency that has the data and technological infrastructure in place to target enforcement resources where they belong—on the high end of the income distribution, where the top 1% alone is estimated to not be paying $160 billion in owed taxes each year. That's important as a matter of revenue-raising, but it's also essential as a matter of fairness.

Crucially, these resources will support a much-needed upgrade of technology that is decades out-of-date, and an investment in taxpayer service so that the IRS is finally able to communicate with taxpayers in an efficient, timely manner. I look forward to working with you on creating new digital tools to allow taxpayers to get information from the IRS instantaneously and on improving taxpayer service, so the agency is well-equipped to answer calls when they come in.

This historic investment in our tax system will accomplish two critical objectives. It will raise substantial revenue to address the deficit; and it will create a fairer system, where those at the top who do not today comply with their tax obligations find it far less easy to do so, and where all taxpayers receive the service from the IRS that they deserve, and that your dedicated workforce is eager to deliver. The importance of the work ahead cannot be overstated.

Sincerely,

Janet L. Yellen

Appendix III

Glossary of Terms

Term	Definition
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on Oct. 1 and ends on Sept. 30.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Total Positive Income	The sum of all positive amounts shown for the various sources of income reported on the individual tax return and, therefore, excludes losses.

Appendix IV

Abbreviations

BOD	Business Operating Division
DRP	Deferred Resignation Program
FY	Fiscal Year
IRA	Inflation Reduction Act of 2022
IRS	Internal Revenue Service
LB&I	Large Business and International Division
RIF	Reduction In Force
SB/SE	Small Business/Self-Employed Division
TIGTA	Treasury Inspector General for Tax Administration
TPI	Total Positive Income

To report fraud, waste, or abuse,
contact our hotline on the web
at https://www.tigta.gov/reportcrime-misconduct.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.