TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

The IRS Large Business and International Division Should Consider Shifting Individual Examination Resources to More Productive Examinations

May 25, 2023

Report Number: 2023-30-019

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

Why TIGTA Did This Audit

This audit was initiated to evaluate the use of resources and examination productivity for individual returns examined by the Large Business and International (LB&I) Division and determine whether it is making the most efficient use of examination resources and staffing.

Impact on Tax Administration

The LB&I Division's Withholding Exchange and International Individual Compliance (WEIIC) practice area completed most of the Division's individual examinations and is responsible for examining returns with an international component. These include returns filed by: (i) U.S. citizens living or working abroad or in a U.S. Territory, (ii) U.S. citizens or resident aliens who hold income-producing assets in a foreign country or claim the foreign earned income exclusion or foreign tax credit, and (iii) foreign persons who have a U.S. filing requirement.

The LB&I Division also examines high-wealth individuals and the enterprises they control as part of the Global High Wealth (GHW) program.

The LB&I Division has in its scope international individual returns, as well as the most complex individual and business income tax returns to address significant levels of suspected underreporting of tax liabilities and nonfiling of tax returns.

What TIGTA Found

While the LB&I Division spends most of its time and resources on auditing businesses, during the last five fiscal years (2017 through 2021), 67 percent of the examinations that the LB&I Division closed consisted of individual taxpayers. According to the LB&I Division, a significant majority were conducted by tax examiners and tax compliance officers who generally work single-issue cases. Individual examinations comprised between 12 and 19 percent of the LB&I Division's time during this same period. Ninety percent of WEIIC individual examination closures reported less than $200,000 total positive income (TPI) for Fiscal Years (FY) 2017 through 2021. TIGTA identified these trends by analyzing the LB&I Division's use of specific activity codes that indicate available taxpayer income information. TPI reflects positive income that the taxpayer reports on their filed income tax return. TPI for a nonresident alien may not reflect their worldwide income because only U.S. income generally is required on their tax return. Additionally, international taxpayers who have not filed a tax return but should have done so will reflect TPI of $0 notwithstanding what their U.S. taxable income (if any) is determined to be upon examination. The figure below shows WEIIC examination closures by TPI during FYs 2017 through 2021.

Total Positive Income	Totals	Percent
TPI of less than $200,000	**57,054**	**90%**
TPI of at least $200,000 and up to $1 million	4,390	7%
TPI more than $1 million	1,976	3%
Total Individual Examinations	**63,420**	**100%**

TIGTA found that the productivity of these lower income returns (returns with TPI of less than $200,000) declined from FY 2018 to 2021.

For FYs 2018 through 2020, the GHW program was unable to examine 2,193 returns identified to have audit potential. These GHW returns have consistently resulted in high tax productivity and account for 1 percent of the LB&I Division's individual taxpayer examinations.

Lastly, the majority (73 percent) of WEIIC examination closures by experienced General Schedule 13 revenue agents were of tax returns with U.S.-sourced income with TPI of less than $200,000 for FYs 2016 through 2020. The LB&I Division should identify low performing examination activity code categories in order to reallocate examination resources to more productive categories.

What TIGTA Recommended

TIGTA recommended that the Commissioner, LB&I Division: 1) evaluate the composition of International Individual Compliance cases to ensure the highest compliance risk work is selected and assigned to International Individual Compliance examiners in alignment with their skills, and 2) monitor the activity code for International Individual Compliance substitute for return case closures to ensure that the activity code accurately represents the taxpayer's TPI. The IRS agreed with TIGTA's recommendations.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

May 25, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The IRS Large Business and International Division Should Consider Shifting Individual Examination Resources to More Productive Examinations (Audit # 202230029)

This report presents the results of our review to evaluate the selection process, use of resources, and examination productivity for individual returns examined by the Large Business and International Division and determine whether it is making the most efficient use of examination resources and staffing. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Increasing Domestic and International Tax Compliance and Enforcement*.

Management's complete response to the draft report is included as Appendix IV. If you have any questions, please contact me or Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations).

Table of Contents

Appendices

Background

The Large Business and International (LB&I) Division serves corporations, subchapter S corporations, and partnerships with assets greater than $10 million. These businesses typically employ large numbers of employees, deal with complicated issues involving tax law and accounting principles, and conduct business in an expanding global environment.

The LB&I Division also provides examination coverage for international individual taxpayers, mid-size businesses, and global high-wealth individuals, including the enterprises they control, such as interests in partnerships, trusts, subchapter S corporations, or C corporations.[1] Figure 1 summarizes the LB&I Division's examination closures over the last five fiscal years.[2]

Figure 1: LB&I Division Examination Closures for Fiscal Years (FY) 2017 Through 2021[3]

Returns	FY 2017	Percentage	FY 2018	Percentage	FY 2019	Percentage	FY 2020	Percentage	FY 2021	Percentage
All Individual	42,012	68%	22,181	68%	17,153	69%	11,529	60%	14,101	67%
All Small Business	11,009	18%	3,167	10%	1,978	8%	2,686	14%	2,086	10%
All Large Business	8,636	14%	7,412	22%	5,881	23%	5,138	26%	4,793	23%
Total Closures	**61,657**	**100%**	**32,760**	**100%**	**25,012**	**100%**	**19,353**	**100%**	**20,980**	**100%**

Source: LB&I Division Key Stats reports, FYs 2020 and 2021.[4]

As Figure 1 shows, examinations of individual taxpayers represent the majority of the examination closures within the LB&I Division in each of the last five fiscal years. Over the five-year period, individual closures were 67 percent of the total examinations closed.[5] The LB&I Division states that a significant majority of these cases were conducted by tax examiners and tax compliance officers, who generally work single-issue cases. However, the number of individual examination closures does not directly relate to the overall staff time needed to complete examinations. Examinations of individuals, in general, take significantly less time to complete than complex corporate examinations. Between FY 2018 and FY 2021 examinations of

---

[1] Internal Revenue Manual 4.52.1.2 (Dec. 26, 2019) states that the LB&I's Global High Wealth program is responsible for business and financial enterprises controlled by individuals with assets or earnings in the tens of millions of dollars.

[2] Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

[3] Combined revenue agent, tax compliance officer, and tax examiner individual income tax return examination closures. Percentages in Figure 1 are calculated by dividing the examination closures in each fiscal year category by the total examination closures for that fiscal year. The totals may not equal 100 due to rounding.

[4] The LB&I Division Key Stats reports provide data for multiple fiscal years. For example, the FY 2021 Key Stats report contains data for FYs 2018 through 2021. The format of the LB&I Division Key Stats reports referenced in this report have evolved during the scope of our review. For example, the Key Stats report covering FYs 2015 through 2018 reported LB&I Division closures in eight practice areas, while the Key Stats report covering FYs 2018 through 2021 identified LB&I Division closures in seven practice areas and the Ogden Campus. In addition, revisions in the organization have resulted in changes to the Key Stats reports that may affect comparability of the data.

[5] The 67 percent is calculated by dividing the total of All Individual returns for FYs 2017 through 2021 of 106,976 by the overall 159,762, which results in 66.9 percent.

individual returns averaged between 18 and 28 hours, examinations of small business returns averaged between 25 and 50 hours, while examinations of large business tax returns averaged between 377 and 464 hours.

Figure 2 provides the staff time and percentage of overall time applied by taxpayer category. While individual examinations accounted for 67 percent of all LB&I Division examination closures in FY 2021 (Figure 1), they accounted for only 19 percent of the staff years (Figure 2).[6]

Figure 2: LB&I Division Staff Years Applied for FYs 2017 Through 2021

Staff Years Applied	FY 2017	Percentage	FY 2018	Percentage	FY 2019	Percentage	FY 2020	Percentage	FY 2021	Percentage
All Individual	220	12%	212	13%	187	15%	177	14%	233	19%
All Small Business	62	4%	53	3%	41	3%	41	3%	53	4%
All Large Business	1,500	84%	1,350	84%	1,064	82%	1,058	83%	967	77%
Total Staff Years	**1,782**	**100%**	**1,616**	**100%**	**1,292**	**100%**	**1,276**	**100%**	**1,253**	**100%**

Source: LB&I Division Key Stats reports, FYs 2020 and 2021.

Figure 2 also shows that the staff years applied to the All Individual cases increased from 12 percent for FY 2017 to 19 percent for FY 2021, while All Large Business staff years dropped from 84 percent for FY 2017 to 77 percent for FY 2021.

The Withholding Exchange and International Individual Compliance (WEIIC) practice area within the LB&I Division is responsible for most of the LB&I Division's individual return examinations. According to the Internal Revenue Manual (IRM), WEIIC is responsible for examining the following taxpayers:[7]

- U.S. citizens living or working abroad or in a U.S. Territory.
- U.S. citizens or resident aliens who hold income-producing assets in a foreign country or claim the foreign earned income exclusion or foreign tax credit.
- Foreign persons who have a U.S. filing requirement.
- Withholding agents who have responsibility to report and withhold.
- Nonresident aliens or foreign corporations with claims for refunds or credits.[8]

According to WEIIC management, almost 90 percent of the work conducted by their field revenue agents from FY 2017 to 2022 related to nonfilers, voluntary disclosure, and training returns.[9]

---

[6] Total hours applied to return examinations divided by the total hours in the fiscal year.

[7] The primary, official source of the Internal Revenue Service instructions to staff related to the organization, administration, and operation of the Internal Revenue Service.

[8] IRM 1.1.24.3.4. (Sept. 30, 2021).

[9] According to the LB&I Division, the Internal Revenue Service considers working voluntary disclosure submissions as "mandatory" although there is nothing in a relevant statute that requires it to work all voluntary disclosure cases. LB&I Division executives feel obligated to work voluntary disclosure submissions because this population is approaching the Internal Revenue Service pursuant to formal programs to disclose unreported bank account, regardless of productivity or other competing risk factors.

In addition, the Global High Wealth (GHW) program in the LB&I Division was specifically established to focus on the examination of high-income and high-wealth individual taxpayers and their related entities. The GHW program examines primarily individuals with tens of millions of dollars of assets or income. According to Internal Revenue Service (IRS) procedures, the selection process uses computations to determine the examination potential of the enterprises controlled by the high-wealth individuals. GHW workload service personnel then build enterprise case files for delivery to the field with all the related returns to be examined.[10]

Generally, the IRS has defined high-income taxpayers as those taxpayers whose income tax returns report total positive income (TPI) of $200,000 or greater.[11] The Treasury Inspector General for Tax Administration (TIGTA) has previously recommended that the IRS reevaluate the threshold of what constitutes high-income taxpayers.[12] Figure 3 summarizes the LB&I Division's individual taxpayer examination closures over the last five fiscal years.

Figure 3: LB&I Division Individual Examination Closures for FYs 2017 Through 2021

Return Type	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total	Percentage
WEIIC	20,820	14,706	12,560	7,190	8,144	63,420	59%
GHW	336	219	240	206	229	1,230	1%
Other Individual	3,188	1,484	1,437	1,083	1,401	8,593	8%
Subtotal	**24,344**	**16,409**	**14,237**	**8,479**	**9,774**	**73,243**	**68%**
Ogden Campus	17,668	5,772	2,916	3,050	4,327	33,733	32%
Total Closures	**42,012**	**22,181**	**17,153**	**11,529**	**14,101**	**106,976**	**100%**

Source: LB&I Division Key Stats Reports, FYs 2020 and 2021.

As shown in Figure 3, WEIIC completed the majority of individual returns examined by the LB&I Division. The Other Individual returns are typically individual returns picked up for examination related to flow-through or corporate examinations. The Ogden Campus return closures include individual returns adjusted and processed as a consequence of partnerships or S corporation audits in which several partners or shareholders have been linked by the revenue agent.

The objective of this review was to evaluate the selection process, use of resources, and examination productivity for individual returns examined by the LB&I Division and determine whether it is the most efficient use of examination resources and staffing. To meet this objective, we analyzed examination results data for FYs 2016 through 2020 and Key Stats reports covering FYs 2016 through 2021, all of which were provided by the LB&I Division. This review did not evaluate the effectiveness of LB&I Division resources related to small and large business returns.

Results of Review

On average, 67 percent of the examination closures in the LB&I Division from FY 2017 through FY 2021 were closures of individual taxpayer returns, the majority of which were closed by WEIIC. This represented between 12 and 19 percent of staff time allocated to LB&I Division

[10] IRM 4.52.1.2(2) (Dec. 26, 2019) and IRM 4.52.1.3(2) (Dec. 26, 2019).

[11] TPI is the sum of all positive amounts shown for the various sources of income reported on the individual income tax return and thus excludes losses.

[12] TIGTA, Report No. 20015-30-078, *Improvements Are Needed in Resource Allocation and Management Controls for Audits of High-Income Taxpayers* p. 9 (Sept. 2015).

individual examinations. However, WEIIC closes mostly examinations of individuals whose TPI is less than $200,000.

TIGTA found that the productivity of these lower income returns declined from FY 2018 to FY 2021. Only 1 percent of the LB&I Division individual taxpayer closures are worked by the GHW program, which examines primarily individuals with tens of millions of dollars of assets or income. For FYs 2018 through 2020, the GHW program was unable to examine 2,193 returns identified to have audit potential. These GHW returns have consistently resulted in high tax productivity. Further, the majority of the examinations conducted by the LB&I Division's most experienced revenue agents within WEIIC were of individual taxpayers with TPI of less than $200,000. This means that WEIIC's most experienced revenue agents conduct more examinations (by volume) of individual taxpayers with TPI less than $200,000 than individual taxpayers with TPI greater than $200,000. However, TPI may not necessarily be reflective of taxpayers' total income because nonresident aliens are generally not required to reflect worldwide income on their tax returns. Additionally, international taxpayers who have not filed a tax return but should have done so will reflect TPI of $0 notwithstanding what their U.S. taxable income (if any) is determined to be upon examination.

The Large Business and International Division's International Individual Compliance Mostly Examined Individual Taxpayers With Total Positive Income Below $200,000

We analyzed the LB&I Division's Key Stats reports to identify trends in the individual examination return closures for FYs 2017 to 2021 for both WEIIC and GHW examination closures. Our review did not include Other Individual or Ogden Campus examination closures as these closures are a result of other examinations as noted previously. Figure 4 provides the trend in coverage by TPI for all International Individual Compliance (IIC) examination closures. In establishing the income information available on the individual taxpayers that the LB&I Division examined, we followed the LB&I Division's use of specific Activity Codes that indicate available taxpayer income information, *e.g.*, Activity Code 272 reflects taxpayers with TPI less than $200,000.

Figure 4: Trend Analysis of IIC Individual Taxpayer Examination Closures for FYs 2017 Through 2021

TPI Category	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Totals	Percentage
TPI of less than $200,000	19,017	13,267	11,149	6,394	7,227	57,054	90%
TPI of at least $200,000 and up to $1 million	1,327	992	992	490	589	4,390	7%
TPI of more than $1 million	476	447	419	306	328	1,976	3%
Total Individual Examinations	**20,820**	**14,706**	**12,560**	**7,190**	**8,144**	**63,420**	**100%**

Source: LB&I Division Key Stats reports, FYs 2018 and 2021.

Figure 4 shows that taxpayers with TPI of less than $200,000 made up the majority (90 percent) of the closures, and only 10 percent consisted of taxpayers with reported TPI greater than

$200,000, *i.e.*, high income.[13] The LB&I Division stated that these returns include Forms 1040, *U.S. Individual Income Tax Return*, 1040-NR, *U.S. Nonresident Alien Income Tax Return*, 1040-PR, *U.S. Self-Employment Tax Return (Including the Additional Child Tax Credit for Bona Fide Residents of Puerto Rico)*, and 1040-SS, *U.S. Self-Employment Tax Return (Including the Refundable Child Tax Credit for Bona Fide Residents of Puerto Rico)*. Of the 57,054 examination closures with TPI of less than $200,000, 25,361 (44 percent) were returns with no Schedule C, *Profit or Loss From Business*; Schedule E, *Supplemental Income and Loss*; or Schedule F, *Profit or Loss From Farming*, or Form 2106, *Employee Business Expense*. These closures were identified by Activity Code 272, which indicates the taxpayer reported no business activity.[14] In FY 2021, 4,594 (64 percent) of the 7,227 returns with TPI of less than $200,000 were Activity Code 272 returns.

While TPI reflects the positive income that the taxpayer reports on their income tax return, IRS management stated that it is not always an accurate indicator of risk for WEIIC taxpayers. They provided an example of a nonresident alien who may have worldwide income that is not required to be reported on a Form 1040-NR. The IRS has indicated that campaign filters are used to ascertain risk and select taxpayers for examination;[15] however, TIGTA did not review the campaign filters as part of this review. Based on the percentage of IIC individual closures in Figure 4, it appears those filters are selecting returns predominantly with TPI less than $200,000, which as discussed in this report (see Figure 5) are not as productive as other LB&I Division examinations.

See Appendix III for the types of returns that accounted for IIC examination closures with TPI less than $200,000 during FYs 2017 through 2021.[16] The figure in Appendix III shows that nonfilers and Form 1040-NR returns accounted for 67 percent of the closures during this period.

The productivity of lower income examinations has been declining since FY 2018

In Figure 5, we compare the productivity in Dollars per Hour of examination results for WEIIC Activity Code 272, *i.e.*, cases for which the taxpayer's TPI is less than $200,000, case closures with the overall productivity for all LB&I Division individual examination closures. Based on the results shown in Figure 5, we conclude that taxpayers whose tax returns have TPI of less than $200,000 on average are less productive when measured by dollars returned per hour, suggesting that these cases represent a lower risk to tax administration. The LB&I Division stated that productivity measured by dollars generated per hour is not the only risk factor that is considered; however, the LB&I Division could not provide a better quantifiable measure of risk for us to consider in our analysis.

---

[13] For purposes of this review, we defined lower income taxpayers as those filing a tax return for which the TPI is less than $200,000. TPI reflects positive income that taxpayers report on their filed income tax return. TPI for a nonresident alien may not reflect their worldwide income because only U.S. income generally is required on their tax return.

[14] A code that identifies the type and condition of a return selected for audit.

[15] See further below for description of LB&I Division campaigns.

[16] The source of the data for returns with TPI of less than $200,000 presented in Figure 4 was the LB&I Division's Key Stats reports. The source of the data presented by the LB&I Division in the figure in Appendix III was the Audit Information Management System. There are minor differences in the Audit Information Management System data for FYs 2019, 2020, and 2021 between the Total Individual Examinations shown in the figure in Appendix III and the TPI of less than $200,000 presented in Figure 4. The differences are not material.

Figure 5: Trend Analysis of Dollars per Hour by Return Type for FYs 2017 Through 2021

Category	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Activity Code 272 WEIIC	$536	$967	$908	$468	$380
Overall LB&I Division Individual (Not Including GHW)	$2,337	$3,209	$1,446	$2,173	$2,365

Source: LB&I Division Key Stats reports, FYs 2018, 2020, and 2021.

As Figure 5 shows, the Dollars per Hour productivity of the Activity Code 272 examination closures is consistently below the overall LB&I Division individual examination closure productivity. In addition, there was a decrease in the productivity from FY 2018 to FY 2021 for Activity Code 272 WEIIC examinations from $967 to $380, while the overall average productivity for LB&I Division individual return examinations fluctuated from a low of $1,446 in FY 2019 to a high of $3,209 in FY 2018. In FY 2021, the Dollars per Hour for Activity Code 272 cases was only 16 percent of that amount for overall LB&I individual closures. The IRS stated that the Dollars per Hour metric does not include the assessment of penalties, and that penalties are a significant focus of WEIIC's compliance effort.

We also analyzed examinations of taxpayers with TPI greater than $1 million closed by the WEIIC practice area and GHW program. Figure 6 compares WEIIC examination results of taxpayers with TPI over $1 million with the results for GHW examinations. While an indicator of productivity, IRS management stated that Dollars per Hour will not, in all cases, be indicative of risk and that other factors should be taken into account, such as penalties.

Figure 6: Trend Analysis of High-Income Taxpayers by Dollars per Hour by Return Type for FYs 2017 Through 2021

Category	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Activity Code 281 TPI>$1 Million (WEIIC)	$3,067	$815	$1,000	$780	$2,380
GHW Individual[17]	$3,857	$5,146	$2,354	$5,198	$11,523

Source: LB&I Division Key Stats reports, FYs 2018, 2020, and 2021.

Figure 6 shows that GHW examination results have outperformed WEIIC examination results of high-income taxpayers. These GHW returns have consistently resulted in high tax productivity, *i.e.*, tax adjustments. Even when WEIIC works cases of taxpayers with TPI greater than $1 million, they are not as productive as GHW cases. For instance, in FY 2021, the Dollars per Hour for Activity Code 281 cases was only 21 percent of that amount for GHW individual closures. The data suggest that high-income and high-wealth taxpayers pose a greater risk to tax administration than WEIIC taxpayers do. Despite outperforming the examinations of WEIIC cases of taxpayers with TPI greater than $1 million, GHW cases account for only 1 percent of LB&I Division's individual taxpayer examinations in terms of closure numbers.

[17] GHW returns are not identified by activity code in the Key Stats reports.

Although the IRS does not measure how much its enforcement of tax laws deters taxpayers from violating those laws, the amount of voluntary compliance probably reflects the level of enforcement activity. In a common model of compliance with tax laws, taxpayers incorporate the risk of being caught violating the laws and the severity of the punishment they might receive into their decisions. Taxpayers' perceptions of the risk of being caught can affect their decisions even if they themselves are not examined.[18] As one research paper concludes, there is "strong evidence to suggest that audits are a potent tool to foster voluntary compliance… suggest[ing] that the allocation of audit resources…ought to be modified to reflect this indirect effect on voluntary compliance."[19]

Further, even with the productivity of GHW examinations, GHW program resources have been reduced more than WEIIC resources over the last four years. Figure 7 compares the resource allocation for IIC and GHW examinations within the LB&I Division.

Figure 7: Trend of Staff Years Used by Fiscal Year

Type of Examination	FY 2018	FY 2019	FY 2020	FY 2021	Change From FY 2018 to FY 2021
IIC	**112.96**	**95.13**	**93.56**	**90.62**	**(20 percent)**
GHW	**25.05**	**17.33**	**15.56**	**15.83**	**(37 percent)**

Source: LB&I Division Key Stats report, FY 2021.

The LB&I Division staff years for WEIIC declined by approximately 20 percent, while GHW staff years declined about 37 percent. The IRS's budget submission for FY 2022 specifically requested additional staff to conduct examinations of GHW taxpayers. In the budget submission, the IRS stated that the increase in budget for the GHW program would alleviate the 25 percent attrition that GHW offices have experienced over the past five years. The budget submission did not include an increase in WEIIC examiners.

For FYs 2018 through 2020, the GHW program identified 2,193 more potentially high-risk returns than it was able to classify and select for audit. Of these 2,193 returns which had been surveyed as excess inventory, 353 had TPI of over $100 million and over 360 days left on the statute of limitations for assessment. These returns were identified during a period when examinations of GHW individual returns were consistently providing more dollars per hour than examinations of WEIIC individual returns.

The LB&I Division states that the number of Activity Code 272 examination closures is inaccurate

For the five-year period ending FY 2021, 90 percent of the closed individual examinations were of taxpayers reporting income of less than $200,000. The 90 percent figure is based on the activity code assigned to the tax return by the IRS when the case is established on the IRS's examination database known as the Audit Information Management System (AIMS).

[18] Congressional Budget Office, Publication 56422, *Trends in the Internal Revenue Service's Funding and Enforcement* (July 2020).

[19] Alan H. Plumley, The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results, National Tax Association 95th Annual Conference on Taxation (Nov. 14 – 16, 2002).

In response to our analysis, IRS officials stated that Activity Code 272 examinations include substitute for return (SFR) cases, which are a type of case involving the IRS filing a tax return for the taxpayer based on available information.[20] According to the IRS, SFR cases are assigned Activity Code 272 by default. For SFRs, the IRS cannot determine the taxpayers' TPI, as these taxpayers have not filed a tax return. Figure 8 provides a summary of WEIIC examinations relative to the total Activity Code 272 closures for the last six fiscal years.

Figure 8: WEIIC Activity Code 272 Closures for FYs 2016 Through 2021

Closures	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Total
SFR Closures	1,757	1,231	1,003	795	495	410	5,691
Non-SFR Closures	7,464	5,307	3,965	4,408	3,563	4,183	28,890
Total Activity Code 272 Closures	9,221	6,538	4,968	5,203	4,058	4,594	34,582
Percentage of SFR Closures	**19%**	**19%**	**20%**	**15%**	**12%**	**9%**	**16%**

Source: IRS Key Stats reports, FYs 2018 and 2021 and IRS-provided response.[21]

IRS management stated that SFR cases for which the activity code was not updated would inflate the number of Activity Code 272 SFR cases that LB&I Division examines. Based on the data in Figure 8, only 16 percent of WEIIC closures with Activity Code 272 are SFR cases.

Revenue agents are required to update the activity code for SFR cases (per IRM Exhibit 4.4.1-1, April14, 2016) based on the figures on the revenue agent report (actual TPI) when the examination is completed. The IRS indicated that some revenue agents working SFR examinations were not updating the activity code based on the actual TPI as a result of the examination. IRS officials stated the failure to update the activity code would inflate the number of Activity Code 272 SFR cases. However, IRS support for this assertion was limited to a small number of examples, and an estimated error rate for how many SFR examinations were potentially impacted was not provided. Further, not all SFR cases would result in an actual TPI greater than $200,000 and Activity Code 272 would then still be accurate.

LB&I Division management relies on their revenue agents to ensure accurate activity codes so that information used for monitoring and decision-making is reliable. AIMS data with respect to activity codes are the source for LB&I Division Key Stats reports that we analyzed in our audit. Given that this is the best available data on activity codes, we conclude that WEIIC is closing mostly returns with TPI less than $200,000.

Management Actions: IRS management stated that they have initiated the following procedures to ensure that activity codes on SFRs are updated based on the examination results:

- Requested WEIIC examination managers with Activity Code 272 returns review these cases to determine if the activity code is correct.

[20] If the taxpayer fails to file a timely tax return, Internal Revenue Code § 6020(b) allows the IRS to file a return on behalf of a taxpayer based on information returns submitted to the IRS.

[21] IRS-provided data for SFR and Non-SFR totals for FY 2021 are off by one return closure. However, the 4,594 does match the Key Stats report for FY 2021.

- Added a new freeze code on all SFR examinations with Activity Code 272 prior to field assignment. Before closing a case, the team manager assigned the case must send an e-mail to Planning and Special Program detailing whether the activity code should be updated. Based on the e-mail, Planning and Special Program will then remove the freeze code.

While these actions may ensure that activity codes on SFRs are updated based on the examination results going forward, the data regarding the number of Activity Code 272 return examinations that were not updated prior to these corrective actions are not known.

The WEIIC practice area provides examination coverage for individual tax returns with international issues and income tax returns filed by international taxpayers regardless of the income level. LB&I Division executives stated that the WEIIC examination selection process is based on filtering for noncompliance and is not focused specifically on achieving specific coverage rates. The overall goal of the LB&I Division is to address the highest compliance risks; however, the lower TPI WEIIC examinations suggest that the LB&I Division is not examining the highest compliance risk individual tax returns.

Campaign and non-campaign examination closures monitoring and analysis

The compliance campaign process is one of the ways the LB&I Division addresses noncompliance issues that require a response in the form of one or multiple treatment streams to achieve compliance objectives. This approach applies IRS knowledge to address issues using the right resources. Campaigns involve thorough analysis of data to support the identification and evaluation of a compliance issue and a consideration of potential treatment streams. Campaigns also involve decisions about the resources to be used; identification of training, mentoring, networking, and tools needed; and a feedback mechanism to ensure that all elements of a campaign are improved continuously.

Campaigns apply treatment streams to achieve intended compliance outcomes. A treatment stream is one or more methods the LB&I Division uses to achieve a campaign's compliance goal. The variety of treatment streams enable the LB&I Division to maintain high compliance across its filing population.

The LB&I Division’s Assistant Deputy Commissioner, Compliance Integration, monitors the Campaign Development Process to ensure that the LB&I Division’s focus is on identifying compliance risks that affect material segments of LB&I Division taxpayers rather than risks determined at the individual taxpayer level. This allows the LB&I Division the ability to assign its revenue agents to the greatest potential compliance risks in the LB&I taxpayer population.[22] While WEIIC returns include both campaign and non-campaign returns, we found that campaign examination closures provided 48 percent of the FY 2020 WEIIC closures.

As part of the Campaign Development Process, the LB&I Division’s Compliance Planning and Analytics requests the involvement of a subject matter expert to assist in developing a filter that will identify returns that fall within the campaign’s parameters. The subject matter expert works with Compliance Planning and Analytics to develop a formula based on items anticipated to be on tax returns.[23] Both campaign and non-campaign WEIIC examinations are based on specific

[22] IRM 4.50.1.1 (1) – (4) (Dec. 3, 2020).

[23] IRM 4.50.1.2.2.1 (2) (Dec. 3, 2020).

international issues, such as Nonresident Alien Schedule A and Other Deductions and Nonresident Aliens.

Some of the non-campaign work has, over time, transitioned to campaign work once the campaigns were developed and implemented. There are 26 active campaigns within WEIIC, ranging from Expatriation to Virtual Currency. However, only 15 of the 26 campaigns during FY 2020 had closed examinations. Nearly one-half of the WEIIC FY 2020 campaign closures were in the Nonresident Alien Schedule A and Other Deductions Campaign. This campaign is intended to continue compliance enforcement in the proper deduction of eligible expenses related to income effectively connected with nonresident alien U.S. trade or business reported on Form 1040-NR.

The IRS needs to reevaluate examination coverages with respect to declining resources specific to GHW examiners. The IRS Commissioner has noted the challenge the IRS faces with sophisticated taxpayers and that the IRS is outmaneuvered at times when examining these taxpayers' tax returns. The LB&I Division should identify low-performing examination activity code categories in order to reallocate examination resources to more productive categories. Based on the productivity of examinations, the IRS should consider reallocating resources within the LB&I Division from WEIIC to GHW examinations and incorporate additional selection processes when selecting WEIIC returns with TPI below $200,000.

The Inflation Reduction Act of 2022 increases funding for the IRS by nearly $80 billion over 10 years and was signed into law in August 2022.[24] With the majority of the funding ($45 billion), the IRS intends to hire enforcement personnel. The IRS Commissioner, in an e-mail to all IRS employees that was also published as an Op-Ed, stated that these resources will not be used to increase audit scrutiny on small businesses or middle-income Americans.[25] The Commissioner stated that:

- The additional resources will also be focused on large corporate and high-net-worth taxpayers to enforce laws already on the books that the IRS does not have enough resources to pursue.
- This investment is designed around a Department of the Treasury directive that audit rates do not rise relative to recent years for households making under $400,000.

The LB&I Division's most experienced revenue agents conduct more examinations of individual taxpayers with lower incomes than individual taxpayers with high income

The IRS states that WEIIC examinations are conducted by examiners ranging in grade from General Schedule (GS)-6 up to GS-14. We focused on WEIIC examinations completed by GS-13 revenue agents for this section of our review.[26] GS-13 revenue agents in the LB&I Division are experienced in examining a full range of tax issues to determine the correct Federal tax liability. They are trained to conduct examinations characterized by complex financial, accounting, and auditing issues, which may involve controversial legal and regulatory interpretations. However,

[24] Pub. L. No., 117-169, 136 Stat. 1819.

[25] Yahoo Finance, *IRS sets the record straight: We're going after tax evaders, not honest Americans: Op-Ed* (Aug. 25, 2022).

[26] In our data analysis, GS-14 revenue agents accounted for only two closures.

Figure 9 shows that the majority (73 percent) of WEIIC examinations conducted by its GS-13 revenue agents were of taxpayer returns reporting TPI less than $200,000.

Figure 9: Trend Analysis of GS-13 WEIIC Examination Closures for FYs 2016 Through 2020

TPI Category	Totals	Percentage[27]
TPI of less than $200,000	10,434	73%
TPI of at least $200,000 and up to $1 million	2,396	17%
TPI more than $1 million	1,527	11%
Total Individual Examinations	**14,357**	**100%**

Source: TIGTA analysis of case closure data for FYs 2016 through 2020 from the AIMS Centralized Information System.

We also found that 6,332 of the 10,434 returns with TPI of less than $200,000 were Activity Code 272 returns. As noted previously, these returns do not have a Schedule C, E, or F or Form 2106. Accordingly, while WEIIC's most experienced revenue agents are examining mostly taxpayers with TPI below $200,000, the LB&I Division's resources devoted to GHW taxpayers continued to decrease (see Figure 7).

In addition, Figure 10 provides the trend in planned and actual examinations for returns with Activity Code 272.

Figure 10: Trend Analysis of WEIIC Examination Closures for Activity Code 272

FY	Planned	Actual	Percentage of Planned
2017	9,011	6,538	73%
2018	3,351	4,968	148%
2019	4,823	5,203	108%
2020	5,926	4,058	68%
2021	3,714	4,594	124%
Total Examinations	**26,825**	**25,361**	**95%**

Source: LB&I Division Key Stats reports, FYs 2018 through 2021.

The FY 2020 planned versus actual examinations were impacted significantly by the Coronavirus Disease 2019 pandemic. However, for three of the last four fiscal years (FYs 2018 through 2021), WEIIC exceeded the planned number of examinations of lower income taxpayers. This trend of examining more returns with TPI of less than $200,000 than planned suggests an inconsistency with resource planning and allocation.

[27] Percentages do not sum to 100 percent due to rounding.

We also reviewed the planned versus actual examinations for WEIIC taxpayers with TPI above $1 million. Figure 11 summarizes our analysis.

Figure 11: Trend Analysis of WEIIC Examination Closures for Activity Code 281

FY	Planned	Actual	Percentage
2017	389	476	122%
2018	351	447	127%
2019	387	419	108%
2020	410	306	75%
2021	352	328	93%
Total Examinations	**1,889**	**1,976**	**105%**

Source: LB&I Division Key Stats reports, FYs 2018 through 2021.

Specifically for FY 2021, WEIIC examined 93 percent of planned examinations for Activity Code 281 while the coverage for Activity Code 272 was 124 percent (Figure 10). The disproportionate number of examinations of lower income taxpayers by GS-13 revenue agents is concerning, as the trend shown in Figure 11 is that the planned goal for examining higher income taxpayers has not been met the last two fiscal years.

Further, on February 10, 2020, the Secretary of the Treasury sent a memorandum to the IRS Commissioner directing the IRS to take all steps necessary to increase examinations for taxpayers with adjusted gross income above $10 million. This Department of the Treasury mandate requires the IRS to impose audit rates of at least 8 percent on those taxpayers with gross income above $10 million.

As such, having Activity Code 272 examinations completed by GS-13 revenue agents appears to be a misallocation of resources because GS-13 revenue agents conduct examinations characterized by complex financial, accounting, and auditing issues, while these tax returns are by taxpayers with TPI of less than $200,000.

As stated previously, according to WEIIC management, almost 90 percent of the work conducted by their field revenue agents related to nonfilers, voluntary disclosure, and training returns from FYs 2017 to 2022. The IRS stated that this work consisted of 51 percent nonfilers, 17.5 percent Offshore Voluntary Disclosure Program, 15 percent Offshore Voluntary Disclosure Initiative, and 6.5 percent training returns, with much of the remaining 10 percent being mandatory work.

WEIIC management stated that most of the examination closures for tax returns with TPI under $200,000 are a consequence of "mandatory audits" that require revenue agents. Voluntary disclosure differs from most audits as they typically require cross-functional coordination and may involve penalty determinations. These examinations should include support from lower level examiners so that higher level GS-13 revenue agents can focus on the most complex issues identified and not be burdened by the administrative processes required for these taxpayers. The IRS should consider creating a formal process to review this area with the goal of minimizing lower income examinations performed by GS-13 revenue agents.

The Commissioner, LB&I Division, should:

Recommendation 1: Evaluate the composition of IIC cases to ensure the highest compliance risk work is selected and assigned to IIC examiners in alignment with their skills.

> **Management's Response:** The IRS agreed with this recommendation and will have its WEIIC Workload Prioritization Team review all IIC compliance workstreams, strategic priorities, and associated data to prioritize the selection and assignment of cases. This team will review and evaluate the composition of all IIC cases to ensure the highest compliance risk work is selected and assigned to IIC examiners in alignment with their skills.

Recommendation 2: Monitor the activity code for IIC SFR case closures to ensure that the activity code accurately represents the taxpayer's TPI.

> **Management's Response:** The IRS agreed with this recommendation. The WEIIC has implemented procedures to ensure that the activity codes of IIC SFR case closures represent TPI accurately. These procedures have been documented and communicated through guidance to the field and include the use of specific codes on all SFR cases that cannot be removed until managers have confirmed that the activity codes have been updated appropriately.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to evaluate the selection process, use of resources, and examination productivity for individual returns examined by the LB&I Division and determine whether it is making the most efficient use of examination resources and staffing. To accomplish our objective, we:

- Verified whether LB&I Division management has the information necessary to determine the performance of WEIIC and GHW individual examinations.
- Evaluated the examination productivity of WEIIC and GHW individual examinations and identified trends in WEIIC and GHW individual closures for FYs 2017 through 2021.
- Conducted a trend analysis of GS-13 revenue agent WEIIC examination closures for FYs 2016 through 2020.
- Conducted a trend analysis of WEIIC individual examination closures based on TPI for FYs 2017 through 2021.
- For FYs 2017 through 2020, analyzed the Dollars per Hour productivity of WEIIC Activity Code 272 closed examinations.

Performance of This Review

This review was performed with information obtained from the LB&I Division during the period of July 2021 through October 2022. 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.

Major contributors to the report were Matthew A. Weir, Assistant Inspector General for Audit (Compliance and Enforcement Operations); Timothy Greiner, Director; Lee Hoyt, Audit Manager; David Hartman, Lead Auditor; and Shaun Starnes, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We used IRS-provided AIMS Centralized Information System data for FY 2016 through FY 2020 and LB&I Division Key Stats reports from FYs 2016 through 2021 for our summary analysis. We evaluated the reliability of AIMS Centralized Information System data by (1) performing electronic testing of required data elements, (2) reviewing existing information about the data and the system that produced them, (3) verifying selected data to Key Stats reports developed by the LB&I Division and based on AIMS Centralized Information System data, and (4) verifying the number of records received for each fiscal year by comparing the number of records in each fiscal year dataset with the number of records listed in the LB&I Division Key Stats reports for GHW and WEIIC examination closures. We determined that the data were sufficiently reliable for the purposes of this report.

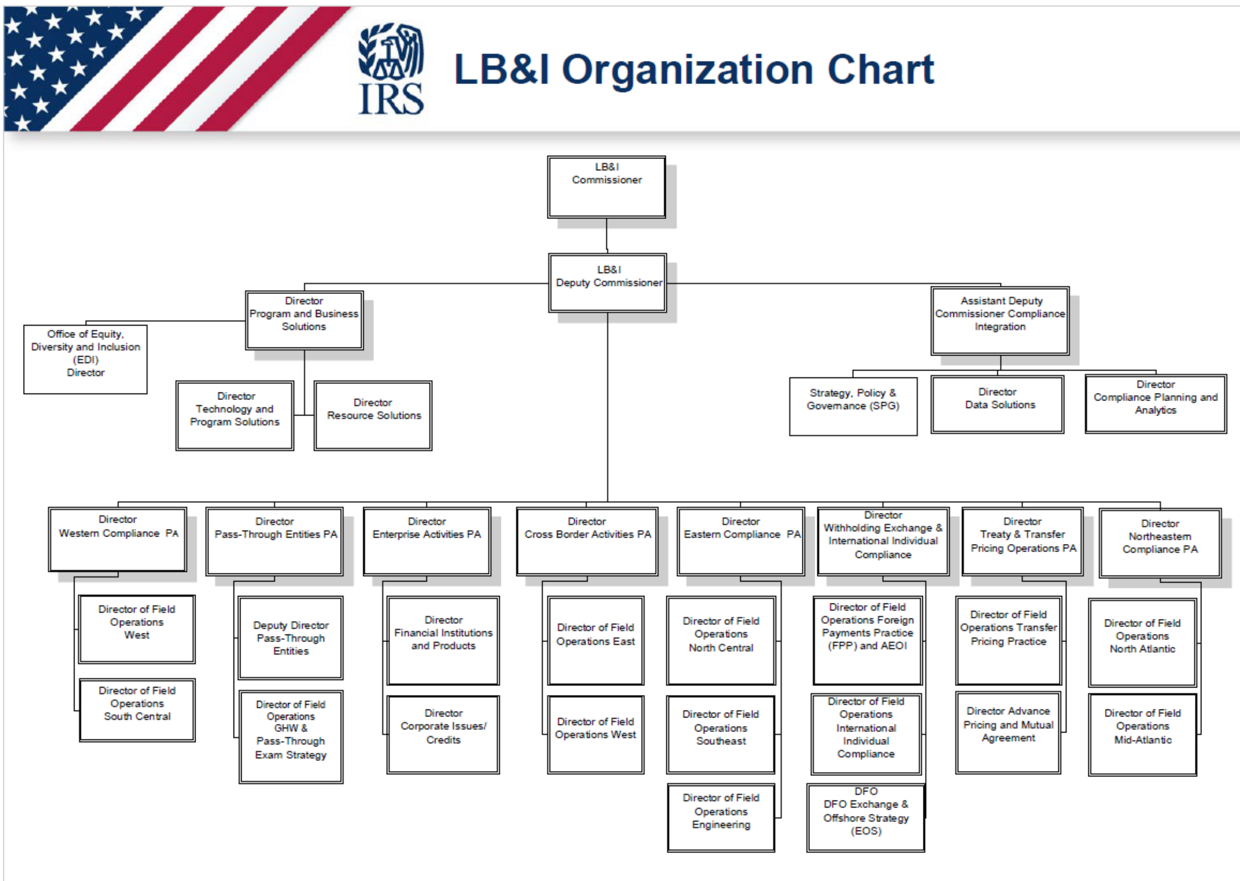
Internal Controls Methodology

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 policies, procedures, and practices related to the selection of individual returns for examination by the LB&I Division. We evaluated these controls by interviewing management, reviewing IRM guidance provided to managers and employees, reviewing reports, and analyzing closed examination data.

Appendix II

Large Business and International Division Organization Chart

WEIIC is one of eight practice areas within the LB&I Division and consists of three Field Operations: Foreign Payment Practice and Automated Exchange of Information, IIC, and Exchange and Offshore Strategy. The GHW program is aligned organizationally in the Pass-Through Entities practice area under the Director, Field Operations GHW and Pass-Through Exam Strategy.



Source: LB&I Division intranet website as of December 2022.

Appendix III

International Individual Compliance Individual Taxpayer Examination Closures for FYs 2017 Through 2021 With TPI Less Than $200,000

Category of Work	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021	Totals	Percentage
Offshore Voluntary Disclosure Initiative	1,932	1,401	908	578	676	5,495	9%
Nonfilers	9,241	5,798	3,136	1,070	847	20,092	35%
Nonresident-Related Issues	3,548	2,698	4,777	3,324	3,722	18,069	32%
Puerto Rico-Related Issues	1,589	1,032	430	393	846	4,290	8%
Training Tax Returns	4	[redacted]	9	86	314	[redacted]	1%
Amended Tax Returns	99	80	59	34	17	289	0.5%
Offshore Banking	103	46	55	63	42	309	0.5%
All Other	2,501	2,210	1,774	825	678	7,988	14%
Total Individual Examinations	**19,017**	[redacted]	**11,148**	**6,373**	**7,142**	[redacted]	**100%**

Source: The IRS's analysis of the IIC's return closure data on AIMS, for FYs 2017 through 2021.

Categories per IRS management:

- **Offshore Voluntary Disclosure Initiative** – Returns submitted to the IRS under the voluntary disclosure programs specifically designed for taxpayers with exposure to potential criminal liability and/or civil penalties due to willful failure to comply with tax or tax-related obligations.
- **Nonfilers** – Taxpayers who have been identified through various means that have failed to file required tax returns and pay corresponding taxes.
- **Nonresident-Related Issues** – Form 1040-NR returns identified for examination through various means.
- **Puerto Rico-Related Issues** – Returns of residents of U.S. Territories — Puerto Rico, U.S Virgin Islands, Guam, American Samoa, and Commonwealth of Northern Mariana Islands — identified for examination through various means.
- **Training Tax Returns** – Returns selected for examination to supplement the training new examiners receive. They are selected based on the training module the new examiner has completed.
- **Amended Tax Returns** – Returns of taxpayers who have filed an amended return for various reasons requesting a refund are selected for various reasons based on potential risk. Examples are Non-Earned Income Credits and the Streamlined programs.
- **Offshore Banking** – Returns in this category address potential tax noncompliance related to taxpayers' failure to report income generated and information reporting associated with offshore banking accounts. Treatment streams under this campaign will

also address individual Foreign Account Tax Compliance Act compliance. It includes various Offshore Banking programs such as Offshore Private Banking, Offshore Service Providers, Offshore Information/Referrals, *etc*.

- **All Other –** This category addresses miscellaneous issues.

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

COMMISSIONER
LARGE BUSINESS AND
INTERNATIONAL DIVISION

May 4, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Holly O. Paz *Holly Paz*
Acting Commissioner, Large Business and International Division

SUBJECT: Draft Audit Report # 2022-30-029, "The Large Business and International Division Should Consider Shifting Resources to Conduct More Productive Examinations"

Thank you for the opportunity to respond to the above-referenced report. There are some key pieces of omitted context that are necessary to address the narrative reflected in the above referenced report. These relate to the scope of the discrete portfolio of work of individual taxpayers with international features, which includes, for example, foreign persons and nonresident aliens with U.S. activities as well as citizens with offshore activities.

The Large Business & International (LB&I) Examination Division is responsible for entity taxpayers (C corporations, S corporations, and partnerships) with assets greater than $10 million. LB&I also serves a narrow segment of individual taxpayers, one being Global High Wealth (GHW) taxpayers and the other being international individual taxpayers of all income levels (for example, LB&I has sole responsibility for examination of nonresident aliens – across all income levels). This work is performed by the International Individual Compliance (IIC) function in LB&I. All other individual taxpayers (representing more than 95% of all individual taxpayers) are served by the other examination divisions in IRS.

The measure of LB&I's enforcement priorities is shown in how the division directs its enforcement resources. Time devoted to examinations is the appropriate gauge of LB&I's compliance resource prioritization rather than mere examinations closed, the latter of which is the focus of TIGTA's conclusions. On average, from 2007 through 2022, LB&I directed approximately 95% of its enforcement resources to segments other than individual returns with reported income of under $200,000, and in no year during that period has this allocation been less than 92%. Over that same time period, LB&I compliance work has yielded over $300 billion in proposed adjustments for the U.S. Treasury.

As we shared with TIGTA, relying merely on the number of closures of IIC cases is a misleading metric for conveying either LB&I's or IIC's work or priorities, given that most of LB&I's portfolio includes complex corporate cases that will nearly always have a longer cycle time to get to closure and that a vast majority of IIC's closures relate to single-issue audits, typically akin to matching via correspondence, by employees that are not revenue agents. These simpler audits do not involve complex returns or transactions and thus cannot be compared equitably to LB&I's many complex and time-consuming individual taxpayer audits – and certainly, cannot be equated to the greater body of LB&I's corporate work.

While the IIC function falls within LB&I, given the international features of its individual taxpayers, IIC's covered population and mission differ significantly from most of LB&I's portfolio. Specifically, IIC is responsible for ensuring tax compliance of (1) foreign persons who have a U.S. filing requirement; (2) U.S. citizens or resident aliens who hold income-producing assets in a foreign country and/or claim the foreign earned income exclusion or foreign tax credit; and (3) U.S. citizens living or working abroad or in a U.S. Territory. IRS must ensure coverage of this specified population to ensure it fairly enforces the nation's tax laws across all segments of the tax populations and so that domestic individual taxpayers are assured that their international individual counterparts are paying their fair share. For segments of this population, significant adjustments come in the form of penalty adjustments, which are not reflected in the tax adjustment figures.

For domestic taxpayers whose sources of income are from the United States and largely subject to information reporting and withholding, the reported income on their tax return is generally reflective of their actual income. However, that is not the case for international individual taxpayers who have worldwide income and often undisclosed income from sources outside of the United States. The report does not fully convey that the total positive income (TPI) on these tax returns characterized as having reported TPI below $200,000 does not reflect these taxpayers' actual worldwide TPI. For example, over half of the examinations reflected in TIGTA's statistics are of taxpayers who reported a TPI of $0, which is clearly misrepresentative of their actual income. These taxpayers are examined for a variety of reasons and represent an important population with respect to which IRS must ensure compliance. For example, a majority of the returns included in this category are those of non-filers, specifically taxpayers who have failed to file an income tax return altogether, and thus are reflected as a $0 TPI figure in the report's statistics. Further, 32% of these examinations reflect non-resident alien issues. This population generally is not required to report their worldwide income, but rather, only their U.S.-sourced income, on their individual U.S. income tax returns, such that their TPI figures reflected in TIGTA's report, even if accurately reported, often omit portions of their total income and/or wealth.

In addition, a significant portion of these closures result from taxpayers that apply for voluntary disclosure programs to disclose unreported income, such as hidden income offshore, that is not reflected on their originally filed returns and thus was omitted from the reported TPI figures. The IRS considers voluntary disclosure submissions as mandatory work, given that this population is unilaterally approaching the IRS pursuant to formal programs to disclose unreported income and this work allows the IRS to help

3

taxpayers correct errors to meet their tax obligations. By way of a further example, U.S. Territory self-employment tax returns, specifically, Forms 1040-PR and -SS, reflect a TPI of $0 for purposes of TIGTA's statistics.

As noted above, each of these populations – non-filers, non-resident aliens, voluntary disclosure applicants, and territory residents – represents components of IIC's population that require audit coverage in order to ensure fairness and parity to the American taxpayer population that is within the examination scope of other IRS business units. And yet even with the resources we've dedicated to date, IIC has audited only approximately 0.4% of Forms 1040-NR (non-residents) filed in recent years. As we have explained to TIGTA, much of IIC's population has significant or otherwise opaque income that has gone unreported by both the taxpayer and any third-party payor. Indeed, TIGTA has also published multiple reports recommending that further compliance work be conducted with respect to IIC's population, *e.g.*, Foreign Accounts Compliance Tax Act, Foreign Investment in Real Property Act, non-resident alien rental income from U.S. real property, Puerto Rico residents' self-employment tax, Section 965, expatriation, and foreign tax credit issues.[1]

Attached is our response to your recommendations. If you have any questions, please contact me, or members of your staff may contact Orrin Byrd, Director, Withholding, Exchange and International Individual Compliance by email (Orrin.Byrd@irs.gov) or phone (470-719-6554).

Attachment

[1] TIGTA Audit: 2022-34-062 - *Additional Actions Are Needed to Ensure Taxpayer Compliance With the Section 965 Repatriation Tax*; TIGTA Audit: 2022-30-019 - *Additional Actions Are Needed to Address Non-Filing and Non-Reporting Compliance Under the Foreign Account Tax Compliance Act*; TIGTA Audit: 2020-40-021 - *Continued Efforts Are Needed to Address Billions of Dollars in Reporting and Payment Discrepancies Relating to Tax Withheld From Foreign Persons*; TIGTA Audit: 2020-40-014 – *Millions of Dollars in Discrepancies in Tax Withholding Required by the Foreign Investment in Real Property Tax Act Are Not Being Identified or Addressed*; TIGTA Audit: 2020-30-071 - *More Enforcement and a Centralized Compliance Effort Are Required for Expatriation Provisions*; TIGTA Audit: 2018-30-040 - *Despite Spending Nearly $380 Million, the Internal Revenue Service Is Still Not Prepared to Enforce Compliance With the Foreign Account Tax Compliance Act*; TIGTA Audit: 2017-30-048 - *Additional Controls Are Needed to Help Ensure That Nonresident Alien Individual Property Owners Comply With Tax Laws*; TIGTA Audit: 2017-30-045 - *Improvements Are Needed to Ensure That Puerto Rico Residents With Unreported and Underreported Self-Employment Tax Are Properly Identified and Examined*; TIGTA Audit: 2015-30-052 - *Improvement is Needed in Compliance Effort to Identify Unsupported Claims for Foreign Tax Credits.*

Attachment

RECOMMENDATION 1: The Commissioner, LB&I Division should evaluate the composition of IIC cases to ensure the highest compliance risk work is selected and assigned to IIC examiners in alignment with their skills.

CORRECTIVE ACTION: WEIIC continually evaluates its workload to ensure the appropriate selection and assignment of cases, utilizing compliance data analytics, campaign filters and workload selection processes to risk its population and select those individual returns with international components that merit examination (*e.g.*, hidden offshore income and assets, offshore service provider schemes, virtual currency, voluntary disclosure, expatriation, non-filer, Puerto Rico Act 22, Foreign Earned Income Inclusion, Foreign Tax Credit and Malta Pension Plan cases). In furtherance of this effort, WEIIC developed a Workload Prioritization Team in late 2021 to undergo a thorough review of all IIC compliance workstreams, strategic priorities, and associated data, in order to prioritize the selection and assignment of cases. This team meets quarterly to review and evaluate the composition of IIC cases to ensure the highest compliance risk work is selected and assigned to IIC examiners in alignment with their skills.

RESPONSIBLE OFFICIAL: Director, LB&I Withholding, Exchange & International Individual Compliance Practice Area

IMPLEMENTATION DATE: Implemented

CORRECTIVE ACTION MONITORING PLAN: N/A

RECOMMENDATION 2: The Commissioner, LB&I Division, should monitor the activity code for IIC SFR case closures to ensure that the activity code accurately represents the taxpayer's TPI.

CORRECTIVE ACTION: WEIIC has implemented procedures to ensure the activity codes of IIC SFR case closures accurately represent TPI. These procedures have been documented and communicated through guidance to the field and include the use of freeze codes on all SFR cases that cannot be removed until managers have confirmed that the activity codes have been updated appropriately.

RESPONSIBLE OFFICIALS: Director, LB&I Withholding, Exchange & International Individual Compliance Practice Area

IMPLEMENTATION DATE: Implemented

CORRECTIVE ACTION MONITORING PLAN: N/A

Appendix V

Abbreviations

AIMS	Audit Information Management System
FY	Fiscal Year
GHW	Global High Wealth
GS	General Schedule
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IIC	International Individual Compliance
LB&I	Large Business and International
SFR	Substitute for Return
TIGTA	Treasury Inspector General for Tax Administration
TPI	Total Positive Income
WEIIC	Withholding Exchange and International Individual Compliance

To report fraud, waste, or abuse,
call our toll-free hotline at:

(800) 366-4484

By Web:

www.tigta.gov

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 23291

Washington, D.C. 20026

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