



IRS Renews Its Focus on High-Income Taxpayers

As part of the agency's efforts to reduce the "tax gap," the Internal Revenue Service (IRS) is signaling its intent to focus on high net worth individuals. The agency's information releases have repeatedly cited the tax gap as a major focus of its enforcement efforts. In fact, the IRS says that all of its major initiatives since 2008 have targeted the tax gap.

The tax gap is the difference between estimated taxes owed and taxes paid. The IRS attributes most of the tax gap to underreporting by individuals, citing items such as incorrect reporting of basis and nondisclosure of foreign accounts and foreign activity. In that these kinds of items are generally only within the purview of high earners, it is clear where the IRS thinks it should focus.

In addition, the IRS audit statistics point to an increased emphasis on high-income tax returns. At a recent press conference the Commissioner for Services and Enforcement, Steven Miller, stated that while the overall number of individual audits went down, audits of high-income individuals are up 34%. The message seems clear: There is a renewed focus on high-income and high net worth taxpayers.

Given the emphasis on closing the tax gap by auditing high-income returns, high-income taxpayers should prepare for a more adversarial experience if they are contacted by the IRS or any other tax authority. If you have any questions about handling conflicts with the IRS or other taxing authorities, please contact your Reinhart attorney or any member of the Tax Controversy and Litigation Team.

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