United States Government Accountability Office

Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

May 2022

TAX COMPLIANCE

Trends of IRS Audit Rates and Results for Individual Taxpayers by Income

Accessible Version

GAO-22-104960

GAO Highlights

Highlights of GAO-22-104960, a report to the Chairman of the Subcommittee on Oversight, Committee on Ways and Means, House of Representatives

May 2022

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Trends of IRS Audit Rates and Results for Individual Taxpayers by Income

Why GAO Did This Study

IRS estimated that individual taxpayers underreported their income tax on average by $245 billion each year for tax years 2011 to 2013. This underreporting is the largest component of the tax gap—the difference between the amount of taxes owed and taxes paid timely and voluntarily.

In recent years, IRS has examined, or audited, a decreasing proportion of individual tax returns. This trend has raised concerns about the potential for declining taxpayer compliance, as well as whether IRS is equitably selecting taxpayers for audit, as audit rates for higher-income taxpayers have decreased more than audit rates for lower-income taxpayers.

GAO was asked to report on trends in IRS audit rates, audit results, and resources used for audits across individual taxpayer income levels. This report analyzes, for the most recent years available, (1) audit rates, and (2) audit results and resources used by taxpayer income.

GAO analyzed at least 10 years of data from audits of individual tax returns reporting various levels of income. GAO also analyzed 10 years of summary data related to the amount of taxes IRS collected from individual taxpayer audits. GAO interviewed IRS officials from various operating and research divisions to identify contextual factors and likely reasons for any audit trends. GAO also reviewed documentation to understand IRS's audit data, budget, and staffing.

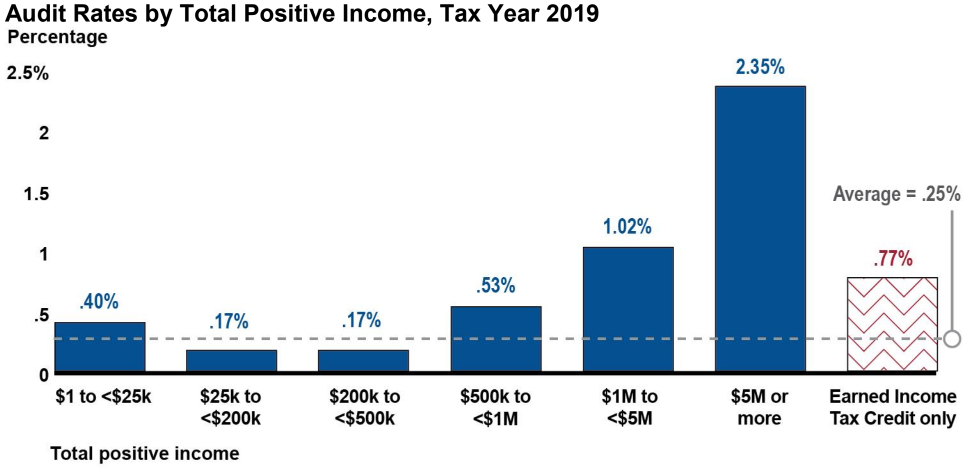
View GAO-22-104960. For more information, contact James R. McTigue, Jr. at (202) 512-6806 or mctiguej@gao.gov.

What GAO Found

Audit Rates. From tax years 2010 to 2019, audit rates of individual income tax returns decreased for all income levels. On average, the audit rate for these returns decreased from 0.9 percent to 0.25 percent. Internal Revenue Service (IRS) officials attributed this trend primarily to reduced staffing as a result of decreased funding. Audit rates decreased the most for taxpayers with incomes of $200,000 and above. According to IRS officials, these audits are generally more complex and require staff's review. Lower-income audits are generally more automated, allowing IRS to continue these audits even with fewer staff.

Although audit rates decreased more for higher-income taxpayers, IRS generally audited them at higher rates compared to lower-income taxpayers, as shown in the figure. However, the audit rate for lower-income taxpayers claiming the Earned Income Tax Credit (EITC) was higher than average. IRS officials explained that EITC audits require relatively few resources and prevent ineligible taxpayers from receiving the EITC.

Audit Rates by Total Positive Income, Tax Year 2019



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Highlight Figure

Total positive income	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$1M	$1M to <$5M	$5M or more	Earned Income Tax Credit only
percentage	.40%	.17%	17%	.53%	1.02%	2.35%	.77%

Audit Results and Resources. From fiscal years 2010 to 2021, the majority of the additional taxes IRS recommended from audits came from taxpayers with incomes below $200,000. However, the additional taxes recommended per audit increased as taxpayer income increased. Over this time, the average number of hours spent per audit was generally stable for lower-income taxpayers but more than doubled for those with incomes of $200,000 and above. According to IRS officials, greater complexity of higher-income audits and increased case transfers due to auditor attrition contributed to the time increase.

Audits of the lowest-income taxpayers, particularly those claiming the EITC, resulted in higher amounts of recommended additional tax per audit hour compared to all income groups except for the highest-income taxpayers. IRS officials explained that EITC audits are primarily pre-refund audits and are conducted through correspondence, requiring less time. Also, lower-income audits tend to have a higher rate of change to taxes owed.

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Abbreviations

EITC	Earned Income Tax Credit
ERIS	Enforcement Revenue Information System
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration
TPI	total positive income

U.S. GOVERNMENT ACCOUNTABILITY OFFICE
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May 17, 2022

The Honorable Bill Pascrell, Jr.
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

The Internal Revenue Service (IRS) audits individual taxpayers' tax returns to verify whether taxpayers accurately reported their tax liability and, if they did not, to determine whether additional taxes should be recommended or refunded.[1] In recent years, IRS has audited a decreasing proportion of individual tax returns. The Treasury Inspector General for Tax Administration (TIGTA) has reported that the audit rate declined 44 percent between fiscal years 2015 and 2019.[2] Based on TIGTA's report, for these years, the audit rate dropped 75 percent for individuals with incomes of $1 million or more, while the audit rate for lower-income taxpayers that claim the Earned Income Tax Credit (EITC) decreased 33 percent.[3]

This trend has raised concerns about the potential for a decline in taxpayers accurately reporting their tax liability. IRS estimates individual taxpayers underreported their income tax on average by $245 billion each year for tax years 2011 to 2013.[4] The tax community has also raised

[1]IRS generally uses the terms "audit" and "examination" interchangeably. For this report, we use "audit" but may use "examination" in some cases, depending on the information source.

[2]Treasury Inspector General for Tax Administration, *Trends in Compliance Activities through Fiscal Year 2019*, 2021-30-011 (Mar. 12, 2021).

[3]The EITC is a refundable tax credit targeted at low- to moderate-income working individuals and couples, particularly those with children.

[4]Underreporting of income tax is the largest component of the tax gap. IRS defines the tax gap as the difference between the amounts of taxes owed and taxes paid voluntarily and timely. IRS issued its most recent tax gap estimate in September 2019. The average annual overall tax gap for tax years 2011 to 2013 is $441 billion. EITC misreporting accounts for $27 billion, or 6 percent of the overall tax gap and 11 percent of the tax gap from individuals underreporting their income tax. See, IRS Pub. 1415.

concerns about whether IRS is selecting taxpayers for audit in an equitable manner, as audit rates for lower-income taxpayers have seen a smaller decline than audits rates for higher-income taxpayers.[5]

TIGTA attributed the decline in audit rates to decreases in IRS audit staffing. The Congressional Budget Office recently reported that appropriations for IRS enforcement activities, such as audits, decreased by about 29 percent in inflation-adjusted dollars between 2010 and 2018.[6]

You asked us to report on trends in IRS individual income tax audit rates, including the number of audits; audit outcomes; and enforcement resources expended across income levels. This report highlights, for the most recent years available, (1) audit rates by select income categories and the reasons for differences across these categories, and (2) audit outcomes and resources used for auditing individual tax returns across the income categories and likely reasons for any trends.[7]

For both objectives, we used data from IRS's system that tracks audit status, results, and investment in audits of individual tax returns. We focused on data that IRS reports in its Data Book, which are grouped by taxpayer incomes ranging from $1 to $10 million or more.[8] To analyze audit rates, we used IRS's 2020 Data Book method of calculating audit rates by tax year.[9] We analyzed audit rate data for tax years 2010 through 2019, the most recent year available at the time of our review.

To analyze audit results and resources for closed audits, we analyzed data based on the fiscal year the audit closed because many audits for recent tax years are still open. Analyzing audits closed during a fiscal year, which can include returns filed during multiple tax years, allowed us to analyze more years (fiscal years 2010 through 2021) and ensure that

[5]The tax community includes congressional committees, research and policy organizations, and the National Taxpayer Advocate, among others.

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

[7]We discuss our use of tax years and fiscal years for reporting audit rates and results, respectively, in appendix I.

[8]We aggregated Data Book groupings of taxpayer-reported income for our analysis. For our methodology, see appendix I.

[9]To calculate audit rate by tax year, IRS divides the total number of closed and open audits of individual tax returns filed for each tax year by the number of individual tax returns filed for each tax year.

we compared complete and comparable results across years. Those results included whether the auditor recommended a change to the taxes owed on the individual return and, if so, what amount of additional taxes the auditor recommended. We compared these recommended tax amounts to the hours spent by the auditor, as well as to the amounts ultimately collected after the audit, using a different IRS system that tracks taxes collected from various enforcement activities such as audits.

To describe audit rates and results and IRS's resource usage, we reviewed IRS data dictionaries and related documentation and interviewed IRS officials to assess the reliability the data. We found the data to be reliable for the purposes of our objectives. Given our focus on the income of the taxpayers being audited, we did not further analyze audit rates and results by variables related to IRS's audit process, such as whether IRS conducted the audit through correspondence or in-person.

We interviewed IRS officials responsible for tracking the audit status and results, as well as officials who track enforcement collection data to learn about the data in the tracking systems. We discussed our preliminary analyses with these officials for their perspective on factors contributing to audit trends. For additional information on our objectives, scope, and methodology, see appendix I.

We conducted this performance audit from February 2021 to May 2022 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

According to IRS and some studies, taxpayers are more likely to voluntarily comply with the tax laws if they believe their return may be audited. IRS audits individual tax returns using three methods: (1) by mail (correspondence audits); (2) in person at IRS offices (office audits); or (3) in person at the taxpayer's home or business, or at a tax practitioner's office (field audit). The type of audit can vary for taxpayers with different income levels.

IRS audits taxpayers at all income levels. For example:

- IRS audits many lower-income taxpayers claiming the EITC, usually through correspondence. To protect tax revenue and prevent fraud, IRS conducts most of these audits before sending tax refunds to taxpayers who are ineligible for the credit.[10] For returns filed for tax year 2019, IRS data showed that 26.7 million individual returns claimed the EITC, of which about two-thirds reported less than $25,000 in income. For tax year 2021, EITC maximum amounts range from $1,502 to $6,728, depending on the number of qualifying children, income level, and filing status (e.g., head of household).
- In July 2020, in response to a Treasury mandate to maintain an 8 percent audit rate on high-income individual taxpayers, IRS started a project to identify taxpayers with a total positive income (TPI) of $10 million or more for audit.[11]
- Since 2009, IRS has conducted the Global High Wealth initiative, which focuses on auditing taxpayers with assets and earnings in the tens of millions of dollars.

IRS concludes audits in three ways:

1. If the taxpayer substantiates all items under review, IRS informs the taxpayer that no additional taxes are due or issues a refund.
2. If the taxpayer agrees with the additional taxes IRS recommended or does not respond to IRS's notifications, IRS closes the audit and starts assessing and collecting the recommended tax amounts or withholds the refund.
3. If the taxpayer disagrees with IRS's recommended tax changes, the taxpayer can attempt to resolve the dispute through meeting with an IRS manager, mediation, filing an appeal, or going to federal tax court. These processes can confirm IRS's initial audit recommendations or

[10]Eligibility rules for the EITC are complex because they address complicated family relationships and residency arrangements to determine who is a qualifying child. See GAO, *Refundable Tax Credits: Comprehensive Compliance Strategy and Expanded Use of Data Could Strengthen IRS's Efforts to Reduce Noncompliance,* GAO-16-475 (Washington, D.C.: May 27, 2016).

[11]In general, total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0.

result in the taxpayer owing a different amount than IRS initially recommended.

IRS has had difficulty replacing audit staff lost from attrition and retirements.[12] At the same time, recently enacted legislation has increased IRS's responsibilities.[13] In fiscal year 2021, IRS's budget was $11.9 billion—over $200 million less than 11 years ago.[14] According to IRS officials, with inflation and anticipated mandatory pay raises, IRS's fiscal year 2021 budget is $2.7 billion less than in fiscal year 2010—a 22 percent reduction in real terms. As a result of this decrease, IRS officials said that they expect to support about 74,200 full-time equivalents this fiscal year—a level nearly identical to its staffing level in 1973.

IRS publishes an annual Data Book, which includes summary statistics for IRS audit results, such as how often it recommends a change in taxes owed and the amounts of additional taxes recommended in total and by income group. IRS tracks resources used for auditing, such as budget costs and auditor hours, on separate computer systems.

[12]We have recommended that IRS improve its human capital management to address workforce planning and hiring challenges. See GAO*, Internal Revenue Service: Strategic Human Capital Management Is Needed to Address Serious Risks to IRS's Mission*, GAO-19-176 (Washington, D.C.: Mar. 26, 2019).

[13]These responsibilities include implementing provisions of the Patient Protection and Affordable Care Act, the Foreign Account Tax Compliance Act, and the law commonly known as the Tax Cuts and Jobs Act. IRS has also delivered multiple rounds of federal payments totaling more than $837 billion in over 496 million payments to individuals under the CARES Act and other legislation. Also, for tax year 2021, IRS delivered the periodic advance payment of a new expanded child tax credit under the American Rescue Plan Act.

[14]In addition, in 2021, IRS also received approximately $1.86 billion in appropriations through the American Rescue Plan Act, Pub. L. No. 117-2, 135 Stat. 4 (2021). For inflation-adjusted IRS funding comparisons from fiscal years 2001 to 2021, see GAO, *Tax Filing: 2021 Performance Underscores Need for IRS to Address Persistent Challenges*, GAO-22-104938 (Washington, D.C.: Apr. 11, 2022).

Audit Rates for All Income Levels Have Generally Decreased since Tax Year 2010

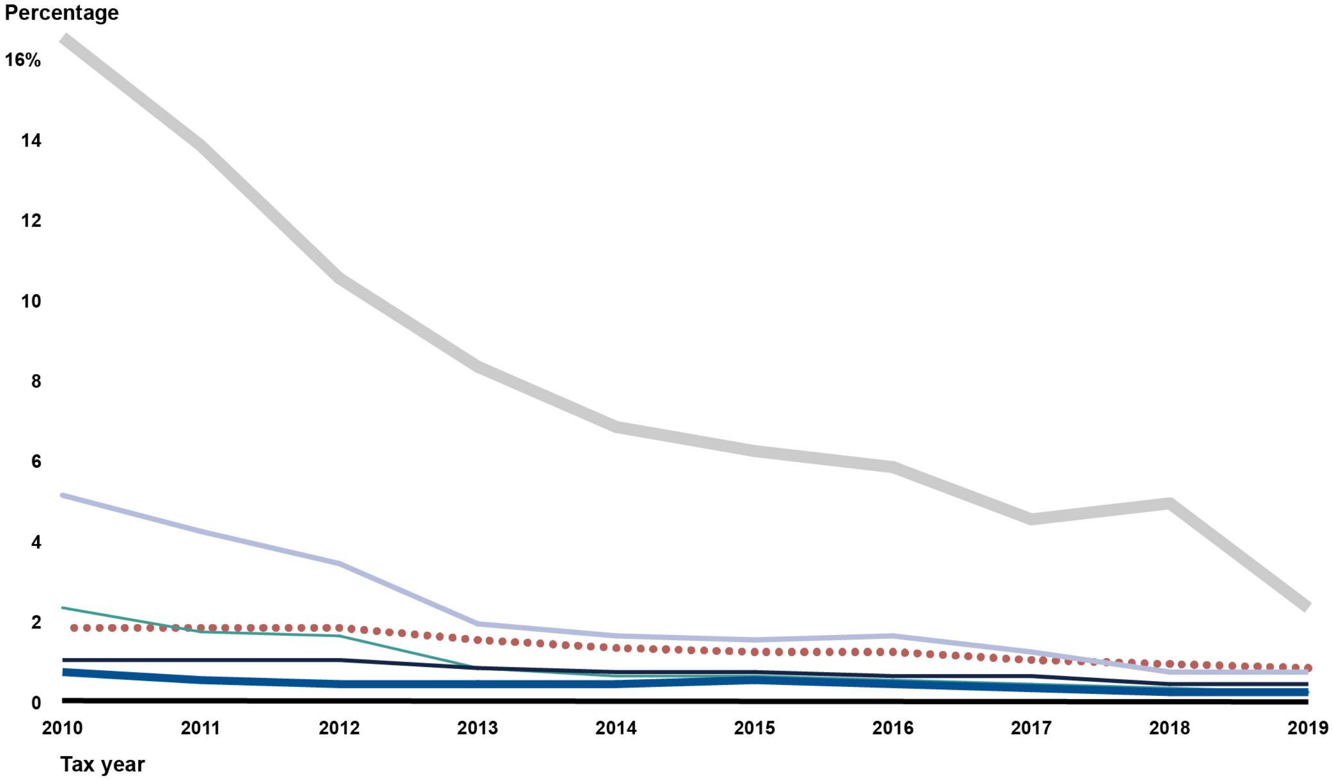
Taxpayers with Income of $200,000 and above Have Had the Largest Audit Rate Reduction

From tax years 2010 to 2019, audit rates of individual tax returns decreased for all income levels, as shown in figure 1.[15] On average, individual tax returns were audited over three times more often for tax year 2010 (about 0.9 percent) than for tax year 2019 (0.25 percent).[16]

[15]For our analysis, we aggregated IRS Data Book income groupings of taxpayer total positive income. Our analysis reflects an average of audit data for each income group. Actual data within an income group can be above or below the stated result for that group.

[16]Generally, IRS can include returns filed within the last 3 years in an audit. Because tax year 2019 is still within this 3-year period, the audit rate will increase as additional returns are selected for audit.

Figure 1: Audit Rates of Individual Tax Returns by Taxpayer Total Positive Income and Earned Income Tax Credit (EITC), Tax Years 2010 to 2019



Percent change from 2010 to 2019 **Average = -72%**

$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
-61%	-76%	-92%	-87%	-86%	-58%

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 1

Total positive income	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
Percent change from 2010 to 2019	-61%	-76%	-92%	-87%	-86%	-58%

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons. EITC audits are not double-counted in the average audit rate.

IRS officials attributed the overall decline in audit rates to decreased funding, and therefore reduced staffing to conduct audits (see appendix II for information on IRS staffing). In addition, the average time needed to complete audits has increased. According to IRS officials, audits are taking longer to complete because IRS has increasingly needed to transfer audits between staff due to attrition, and to pause work frequently due to a series of major disruptions in recent years, among other reasons. Because of these factors, from tax years 2010 to 2019, IRS conducted fewer audits at the same time that it received more tax returns across income levels.[17]

Audit rates for taxpayers with higher incomes decreased the most, largely because higher-income audits tend to be more complicated and require auditors to manually review multiple issues, according to IRS officials. Because audit staffing has decreased, IRS cannot conduct as many of these audits, compared to lower-income audits which are generally less complex and involve more automated processes. In addition, IRS officials stated that the number of returns filed by higher-income populations is growing, meaning more audits are needed to achieve the same audit rate.

The average audit rate for the highest-income taxpayers ($5 million and above) slightly increased from tax year 2017 to 2018, driven by a 3 percentage point increase in audit rates for taxpayers reporting incomes of $10 million and above.[18] IRS officials explained that the increase resulted from IRS actions in response to the Treasury mandate to maintain an audit rate of 8 percent for taxpayers with incomes $10 million and above.

Audit Rates Generally Increased with Income Reported, but IRS Audited Taxpayers Claiming the Earned Income Tax Credit More than the Average Audit Rate

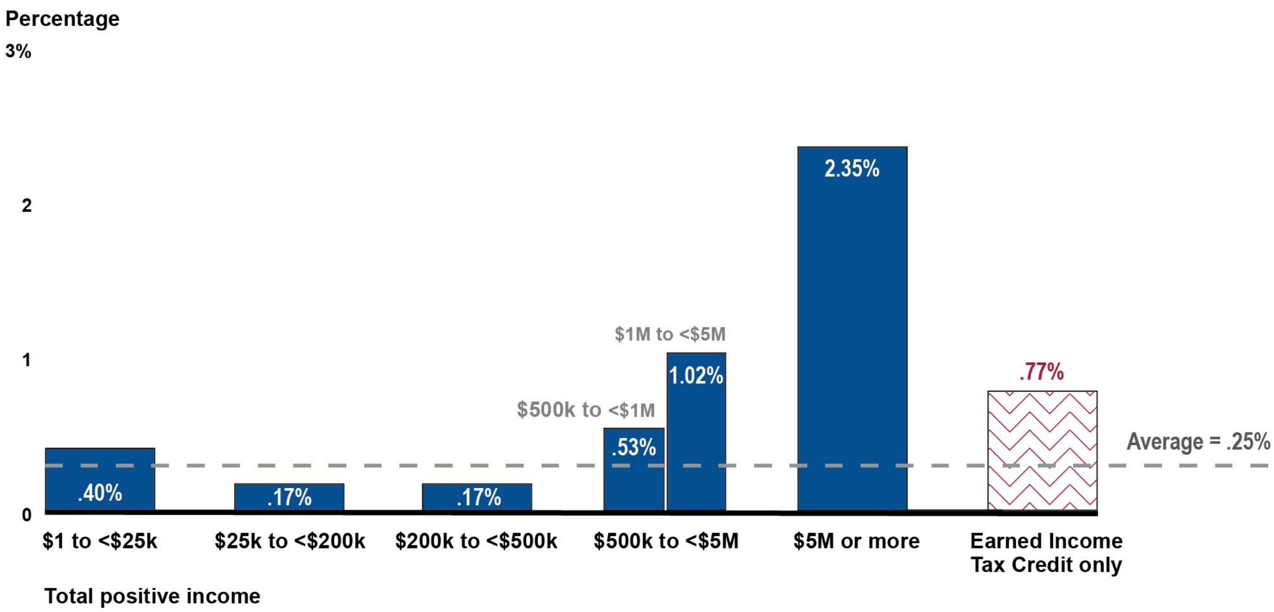
IRS generally audited higher-income taxpayers at higher rates than lower-income taxpayers from tax years 2010 through 2019. However, IRS audited taxpayers claiming the EITC at a higher rate than average, as

[17]From tax years 2010 to 2019, the number of audits of individual tax returns decreased from 1,270,279 to 386,752. The number of tax returns increased for the same period, from about 142 million to nearly 157 million. For consistency with our analyses, these numbers do not include taxpayers reporting no TPI or international returns. See appendix III, table 3 for additional information on the numbers of audits and tax returns by tax year.

[18]The audit rate decreased 1.2 percentage points for taxpayers with incomes of $5 million to less than $10 million. See appendix III, table 3. We did not further explore changes between tax years 2018 and 2019 because the audit rates for 2019 will change. IRS officials said that they are continuing to select tax year 2019 returns for audit.

shown in figure 2 for tax year 2019, as an example. Appendix III includes more detailed data on audit rates by income levels and EITC for all tax years from 2010 through 2019.[19]

Figure 2: Audit Rates by Total Positive Income and Earned Income Tax Credit (EITC), Tax Year 2019



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 2

Total positive income	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$1M	$1M to <$5M	$5M or more	Earned Income Tax Credit only
Percentage	.40%	.17%	17%	.53%	1.02%	2.35%	.77%

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons. EITC audits are not double-counted in the average audit rate.

IRS officials explained that the EITC audit rates can be higher than audit rates for some higher-income taxpayers because EITC audits are limited in scope and less time consuming, allowing IRS to conduct more audits.[20] They also said that returns with the EITC have high rates of improper

[19]See appendix III, table 3.

[20]For example, for tax year 2019, the EITC audit rate was higher than the rate for taxpayers with incomes of $500,000 to $1 million (0.53 percent), but lower than the rate for those with incomes of $1 million to $5 million (1.02 percent).

payments and require a greater enforcement presence by doing more audits.[21]

Higher-Income Audits Generally Resulted in IRS Recommending Higher Average Tax but Took Longer

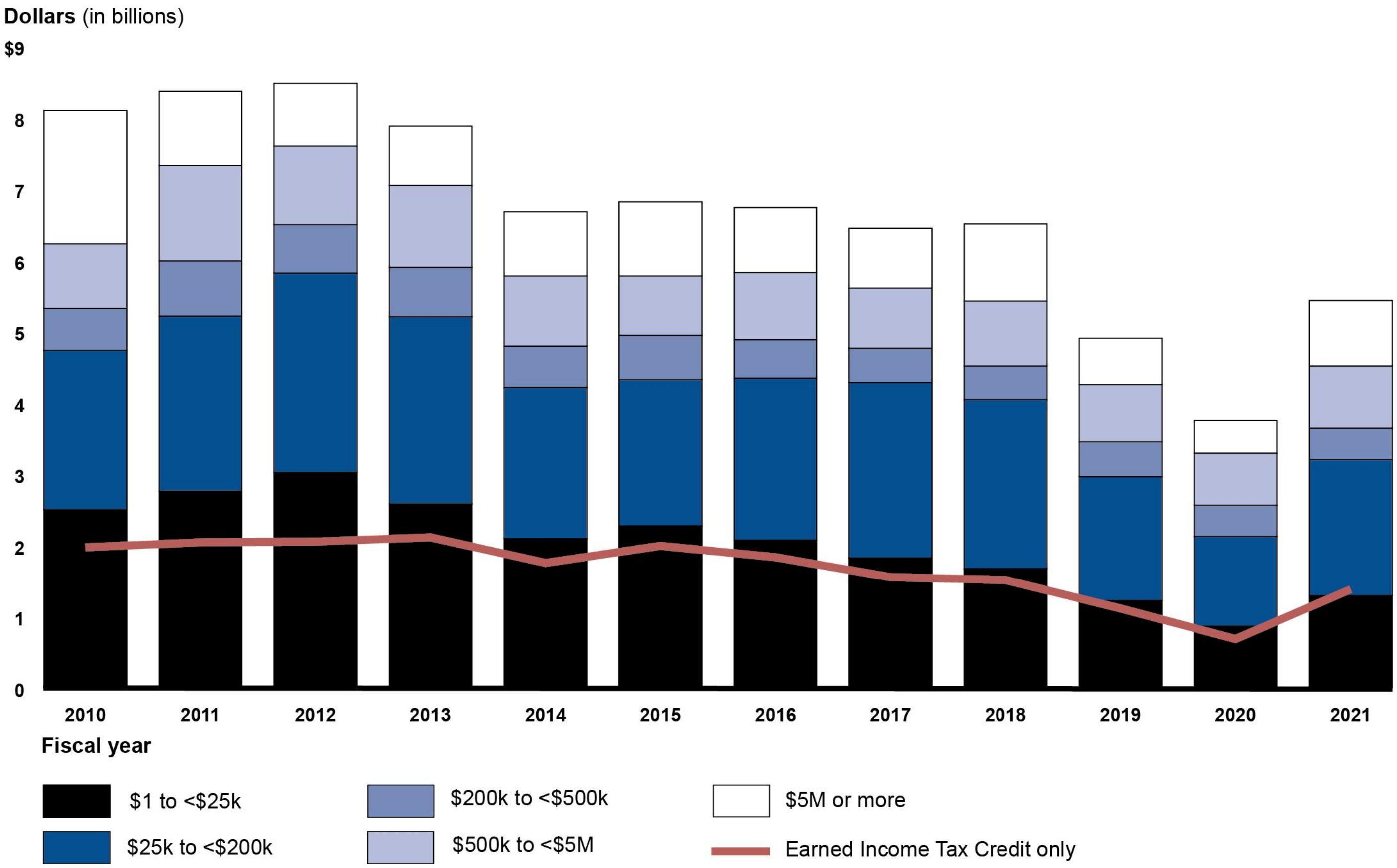
IRS Recommended Lower Amounts of Tax Overall from Audits Over Time

From fiscal years 2010 to 2021, the total amount of additional taxes that IRS recommended from individual taxpayer audits has generally decreased, as shown in figure 3.[22]

[21]An improper payment is generally defined as any payment that should not have been made or that was made in an incorrect amount (including an overpayment or an underpayment) under a statutory, contractual, administrative, or other legally applicable requirement. See 31 U.S.C. § 3351(4). According to IRS estimates, EITC has consistently had a high improper payment rate. For fiscal year 2020, IRS estimated that $16 billion—or 23.5 percent—of EITC payments were improper, of which $15 billion, or 91 percent, are from the inability to authenticate eligibility. See GAO-16-475.

[22]If a taxpayer has not substantiated items under review at the conclusion of an audit, IRS generally recommends that the taxpayer owes additional taxes. IRS assesses additional recommended taxes as part of a taxpayer's tax liability when a taxpayer agrees to the recommended amount or does not respond to IRS notifications. A taxpayer can challenge the recommended amount through appeals or litigation, which can result in the taxpayer owing a different amount than IRS initially recommended. For consistent comparisons, our analyses of IRS audit results and resources focus on fiscal year, rather than tax year which we used to analyze audit rates, because many audits are not yet closed for all tax years, particularly the most recent ones (see appendix III, figure 10).

Figure 3: Total Recommended Additional Tax from Audits of Individual Returns, by Total Positive Income and Earned Income Tax Credit (EITC), Fiscal Years 2010 to 2021



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 3

Fiscal Year	$1 to <$25k Dollars (in billions)	$25k to <$200k Dollars (in billions)	$200k to <$500k Dollars (in billions)	$500k to <$5M Dollars (in billions)	$5M or more Dollars (in billions)	Earned Income Tax Credit only Dollars (in billions)
2010	$2.5	$2.23	$0.59	$0.91	$1.87	$1.97
2011	2.76	2.45	0.78	1.34	1.04	2.04
2012	3.02	2.8	0.68	1.1	0.88	2.05
2013	2.58	2.62	0.7	1.15	0.83	2.11
2014	2.09	2.12	0.58	0.99	0.9	1.75
2015	2.27	2.05	0.62	0.84	1.04	1.99
2016	2.07	2.27	0.54	0.95	0.91	1.83
2017	1.82	2.46	0.48	0.85	0.84	1.55
2018	1.67	2.37	0.47	0.91	1.09	1.51
2019	1.22	1.74	0.49	0.8	0.65	1.11
2020	0.86	1.26	0.44	0.73	0.46	0.68
2021	1.29	1.91	0.44	0.87	0.92	1.38

Note: The Internal Revenue Service (IRS) assesses additional recommended taxes as part of a taxpayer's tax liability when a taxpayer agrees to the recommended amount or does not respond to IRS notifications. A taxpayer can challenge the recommended amount through appeals or litigation. In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons. EITC audits are not double-counted in the total recommended additional tax from audits.

IRS officials attributed this general decrease in recommended tax amounts to closing fewer audits. In particular, during 2020, the onset of the COVID-19 pandemic caused a drop-off in audit activity.[23] The uptick in recommended tax in fiscal year 2021 was due to IRS adapting its policies and procedures to continue audit work during the pandemic, according to IRS.

The majority of the total amount of recommended additional tax came from audits of taxpayers with incomes below $200,000. However, on average, IRS recommended higher amounts of additional tax per audit as income increased (see table 1, using fiscal year 2021 as an example).

[23]See GAO, *COVID-19: Additional Actions Needed to Improve Accountability and Program Effectiveness of Federal Response,* GAO-22-105051 (Washington, D.C.: Oct. 27, 2021), "COVID-19 Impact on IRS Enforcement."

Appendix IV includes more detailed data on average and total recommended additional tax for all tax years from 2010 through 2021.[24]

Table 1: Average Recommended Additional Tax per Individual Tax Return Audit, Fiscal Year 2021

Income groups by total positive income (TPI)	Dollars
$1 to <$25K	5,169
$25K to <$200K	6,565
$200K to <$500K	18,263
$500K to <$5M	46,881
$5M or more	284,810
Earned Income Tax Credit (EITC) only	*4,955*
Average	**9,272**

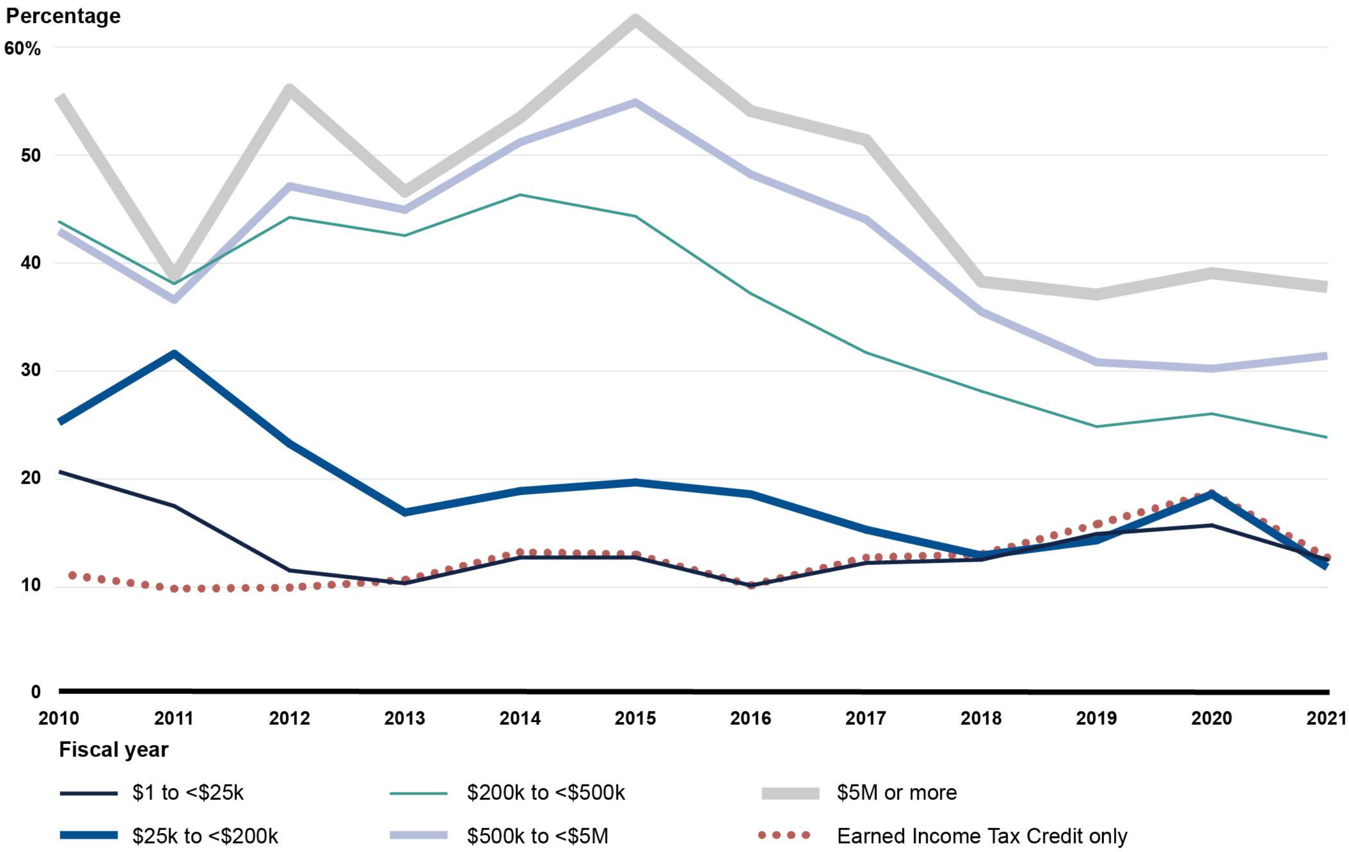
Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Note: In general, TPI is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons. EITC audits are not double-counted in the average audit rate.

From 2010 to 2021, IRS generally identified tax changes in a larger portion of audits. In other words, the rate of audits that closed with no changes to taxes owed, called the no-change rate, has generally decreased for all income levels comparing fiscal years 2010 to 2021, as shown in figure 4.

[24]See appendix IV, tables 4 and 5.

Figure 4: Rate of Audits Resulting in No Change to Taxes Owed by Individual, by Total Positive Income and Earned Income Tax Credit (EITC), Fiscal Years 2010 to 2021



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 4

Fiscal Year	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
2010	20.4%	25%	43.7%	42.8%	55.4%	10.9%
2011	17.2%	31.4%	37.9%	36.4%	38.6%	9.5%
2012	11.2%	23%	44.1%	47%	56%	9.6%
2013	10%	16.6%	42.4%	44.8%	46.5%	10.3%
2014	12.4%	18.6%	46.2%	51.1%	53.4%	12.9%
2015	12. 4%	19.4%	44.2%	54.8%	62.5%	12.7%
2016	9.8%	18.3%	37%	48.1%	54%	9.8%
2017	11.9%	15%	31.5%	43.9%	51.3%	12.4%
2018	12.2%	12.6%	27.9%	35.3%	38.1%	12.7%
2019	14.6%	14%	24.6%	30.6%	36.9%	15.5%
2020	15.4%	18.3%	25.8%	30%	38.9%	18.4%
2021	12.2%	11.5%	23.6%	31.2%	37.6%	12.4%

Notes: Figure 4 shows the number of audits closed with no changes to taxes owed, divided by the total number of audits closed in each fiscal year. IRS publishes in its annual data books lower numbers of audits resulting no change because IRS uses a different methodology. In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

IRS officials explained that the no-change rate has generally decreased because as IRS does fewer audits, it tends to select returns for audit that have the highest chance of resulting in changes. In addition, they explained that the no-change rate is generally higher for audits of higher-income taxpayers because IRS sometimes needs to open an audit to request information from these taxpayers to confirm whether their returns are accurate. These audits can result in the taxpayer owing no additional taxes. For lower-income taxpayers, IRS can more easily use the information reported on tax returns and by third parties, such as employers, to screen out compliant returns from being audited, which results in a lower no-change rate.[25]

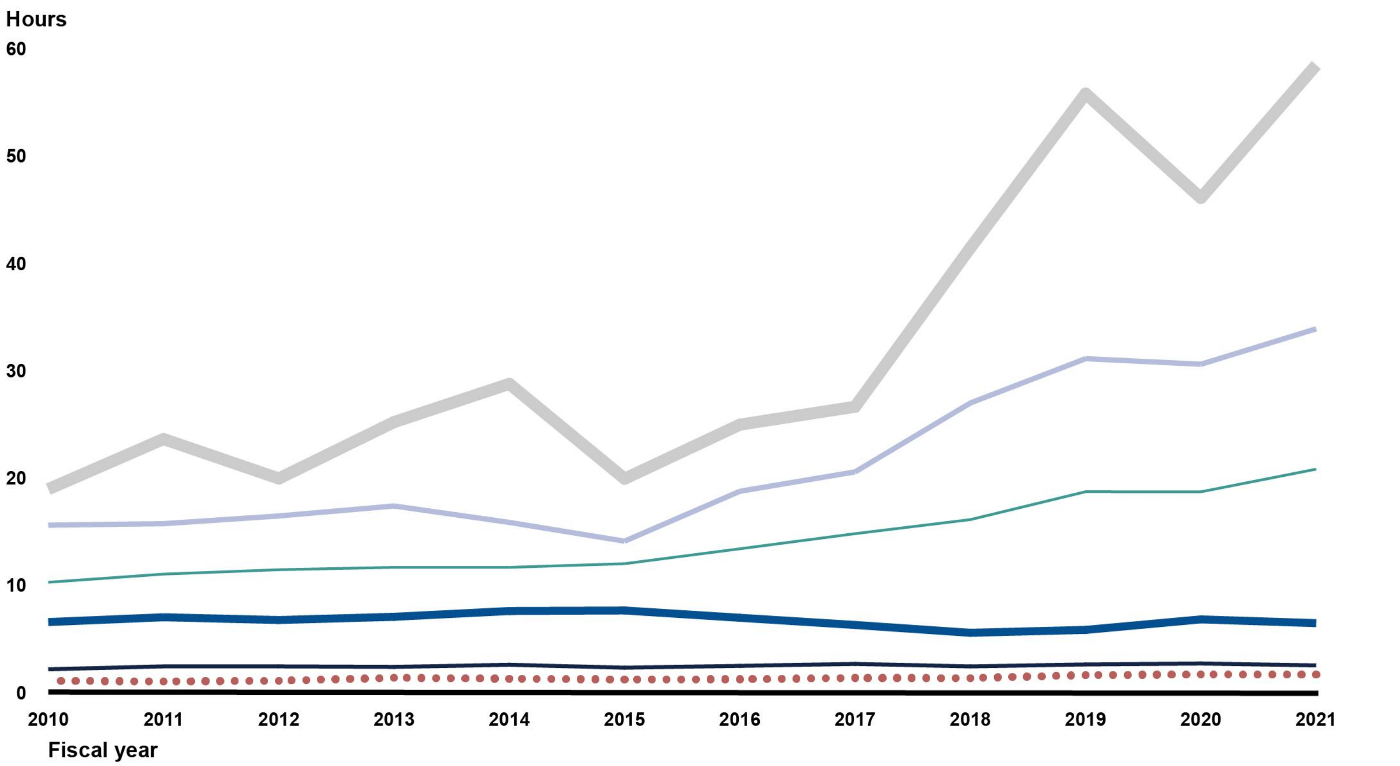
[25]In addition, the extent to which taxpayers do not respond to IRS audit notices, which we discuss later in the report, may also help explain differences in the no-change rate between higher- and lower-income taxpayers.

Since Fiscal Year 2010, Average Audit Hours Have More than Doubled for Returns with Incomes of $200,000 and above

From fiscal years 2010 to 2021, the average number of hours spent per audit increased about 30 percent, from 5.0 hours to 6.5 hours. Average audit hours were generally stable for lower-income returns but more than doubled for incomes of $200,000 and above. Figure 5 shows the trend in average hours per audit by different income groups.[26]

[26]Our scope of work did not include analyzing audits by type of audit, such as correspondence or field. IRS officials noted that combining different types of audits in our analyses by taxpayer income could distort the trends for audit results. However, they did not provide analyses showing if and how our reported audit trends by income levels would change if also analyzed by type of audit.

Figure 5: Average Hours per Audit, By Total Positive Income and Earned Income Tax Credit (EITC), Fiscal Years 2010 to 2021



Percent change from 2010 to 2021 **Average = +30%**

$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
+17%	-2%	+103%	+118%	+209%	+59%

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 5(Part 1 of 2)

Fiscal Year	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
2010	2.08	6.48	10.19	15.51	18.87	1
2011	2.35	6.93	10.95	15.65	23.54	0.95
2012	2.35	6.67	11.36	16.37	19.86	1.01
2013	2.3	6.97	11.58	17.3	25.12	1.29
2014	2.5	7.51	11.58	15.77	28.68	1.2
2015	2.23	7.56	11.92	14.02	19.84	1.13
2016	2.4	6.88	13.31	18.67	24.88	1.15
2017	2.58	6.21	14.72	20.48	26.55	1.27
2018	2.35	5.48	16.03	26.9	41.36	1.26
2019	2.53	5.75	18.63	31.03	55.73	1.54
2020	2.62	6.73	18.62	30.51	46	1.6
2021	2.44	6.38	20.73	33.81	58.39	1.58

Accessible Data Table for Figure 5(Part 2 of 2)

	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
Percent change from 2010 to 2019	+17%	-2%	+103%	+118%	+209%	+59%

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

IRS officials cited the following reasons why average hours per audit increased during this time period:

- **Attrition.** Auditors have high attrition rates, and IRS estimates that 15 percent of current auditors will retire in the next 3 years. Therefore, IRS has needed to more frequently transfer audit cases to new auditors, who need to spend more hours reviewing the work already performed.
- **Major work disruptions.** A series of major disruptions, including a government shutdown, natural disasters, and the COVID-19 pandemic, forced IRS to pause audits. Upon restarting, auditors spent more hours to review the work already performed.
- **Tax law changes.** Auditors require training on tax law changes to learn about new tax compliance issues. Auditors used more hours to research these new issues when they arose during an audit.

EITC audit hours increased to a lesser extent (from 1 to 1.6 hours, or 59 percent) than audit hours for high-income returns, which tend to be complex. IRS officials said audits of taxpayers claiming the EITC are more limited in scope, use more automation, and are typically conducted through correspondence.[27]

For taxpayers with income below $25,000 and for taxpayers claiming the EITC, IRS spent more hours, on average, on no-change audits—those resulting in no additional taxes owed—compared to audits with tax changes. IRS officials said that when lower-income taxpayers respond to IRS to justify that they do not owe additional taxes, auditors use more hours to review documentation and respond to taxpayers compared to when taxpayers do not provide adequate documentation or respond at all, which is common for lower-income taxpayers. When taxpayers provide inadequate documentation or no response, IRS is able to use automated processes to quickly close these audits with the recommended tax change.

Conversely, for taxpayers with income of $50,000 and above, IRS spent fewer hours, on average, on no-change audits compared to audits with tax changes. Taxpayers at this income level are more likely to respond to IRS audit notices. IRS officials said that although it takes time to review taxpayer documentation substantiating that the taxpayer owes no additional taxes, auditors can close these no-change audits relatively quickly. In comparison, audits with tax changes can take longer because they commonly have complex tax issues.

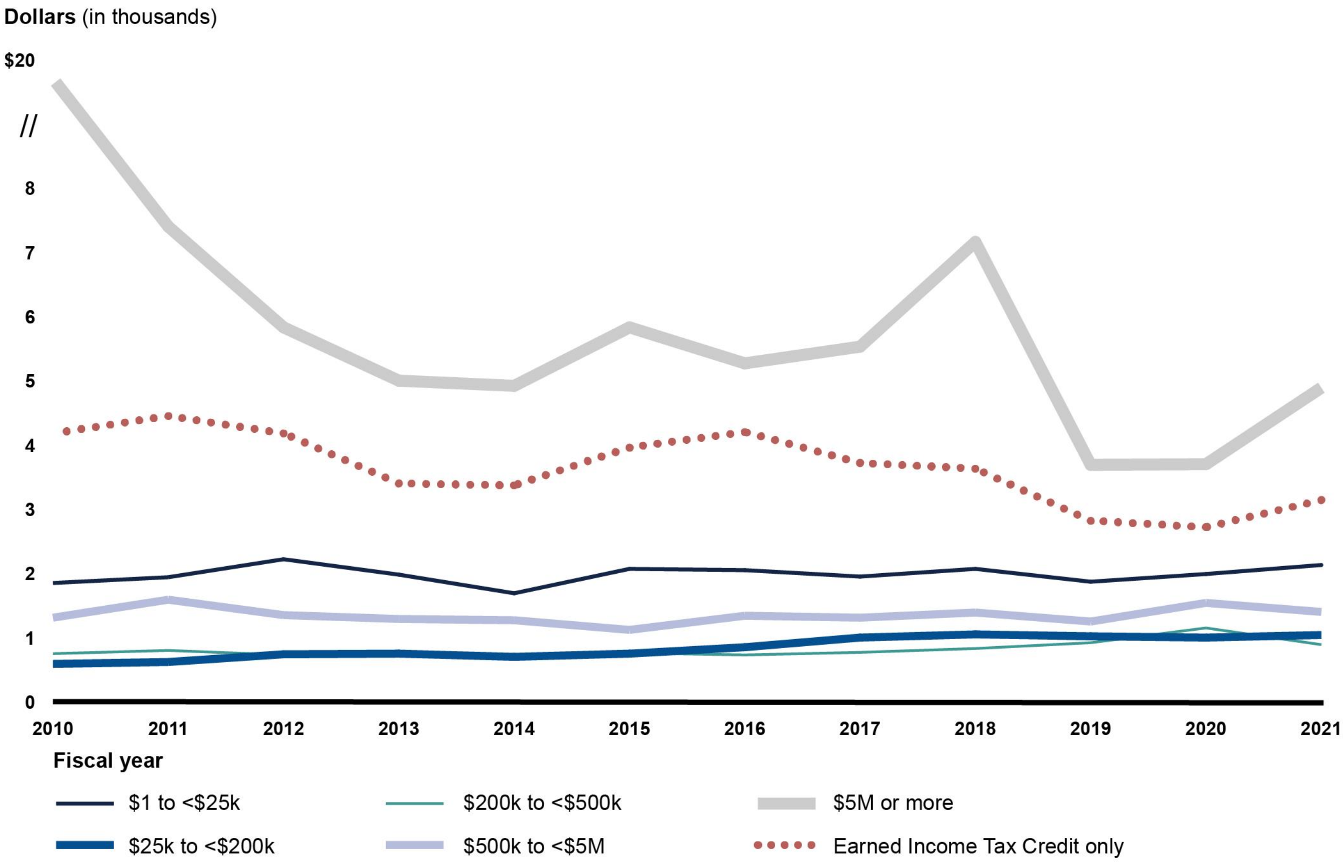
[27]Audits of specific issues that are limited in scope, such as EITC eligibility, are conducted through correspondence. IRS conducts most of its EITC audits (about 80 percent) prior to issuing refunds. In these pre-refund audits, IRS freezes the refund and sends a letter to the taxpayer requesting documentation such as birth certificates or school or medical records to verify eligibility. In contrast, for audits of individual returns with broader and more complex issues, IRS may conduct in-person audits with the taxpayer, which require more audit hours to complete. See GAO, *IRS Correspondence Audits: Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden,* GAO-14-479 (Washington, D.C.: June 5, 2014).

Lower-Income Audits Often Have a Higher Rate of Return per Audit Hour Compared to Higher- Income Audits, but Understanding Audit Results Can Be Challenging

Additional Taxes Recommended Compared to Audit Hours

To better understand audit results relative to resources invested, we compared recommended additional tax with the hours spent on audits of individuals at different income levels. We found that audits of the lowest-income taxpayers, particularly those claiming the EITC, resulted in higher amounts of recommended additional tax per audit hour compared to all but the highest income group, as figure 6 shows.

Figure 6: Recommended Additional Tax from Individual Audits per Audit Hour, by Total Positive Income and Earned Income Tax Credit (EITC), Fiscal Years 2010 to 2021



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 6

Fiscal Year	$1 to <$25k Dollars (in thousands)	$25k to <$200k Dollars (in thousands)	$200k to <$500k Dollars (in thousands)	$500k to <$5M Dollars (in thousands)	$5M or more Dollars (in thousands)	Earned Income Tax Credit only Dollars (in thousands)
2010	$1.84	$0.58	$0.74	$1.3	$16.97	$4.17
2011	1.93	0.61	0.79	1.58	7.39	4.44
2012	2.21	0.73	0.72	1.34	5.82	4.17
2013	1.97	0.74	0.71	1.28	4.99	3.39
2014	1.68	0.69	0.66	1.26	4.91	3.36
2015	2.06	0.74	0.75	1.11	5.82	3.95
2016	2.04	0.84	0.72	1.33	5.26	4.19
2017	1.94	0.99	0.76	1.3	5.52	3.71
2018	2.06	1.04	0.82	1.38	7.15	3.62
2019	1.86	1.01	0.91	1.24	3.68	2.81
2020	1.98	0.99	1.14	1.53	3.69	2.71
2021	2.12	1.03	0.88	1.39	4.88	3.13

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits of the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Audits of individual taxpayers with incomes of $5 million and above had the highest average recommended additional tax per audit hour, followed by audits of those claiming the EITC and those reporting less than $25,000 in income. Our analysis for fiscal years 2010 through 2021 found that audits of taxpayers claiming the EITC generally had similar average recommended additional taxes per audit hour compared to audits of incomes from $5 million to less than $10 million.[28]

IRS officials said they have to invest fewer hours in audits of lower-income taxpayers, including those claiming the EITC, because many of these taxpayers do not respond to IRS's correspondence or provide

[28]See appendix IV, table 6.

adequate responses.[29] In these cases, IRS closes the audits with additional taxes recommended. Audits of the highest-income taxpayer returns require many more audit hours because they are generally more complex and often conducted in-person; however, these audits can generate high amounts of recommended taxes so the recommended additional tax per audit hour is higher than other income groups.

This comparison does not fully account for all of the returns from and investments in audits. On the return side, additional recommended tax amounts may not become assessed as taxes owed and then ultimately collected. On the investment side, the audit hours neither represent the cost of the audit nor the costs to select the return being audited or to assess and collect any taxes after the audit.

Revenue Collected Compared to Audit Costs

Beyond the approach of comparing recommend tax amounts to the hours invested, IRS compares the revenue and cost of audits in its annual congressional budget justification. Between fiscal years 2016 and 2020, IRS estimated that the revenue it collected from audits was about two to four times greater than the budgeted cost of those audits.[30] IRS's comparison uses the amount of taxes collected, which is a more precise estimate of return than recommended amounts. The comparison uses a broader definition for audit resources because it covers budgeted

[29]The National Taxpayer Advocate has reported that lower-income taxpayers are less likely to respond to IRS when audited. For example, IRS closed 35 percent of fiscal year 2019 audits of individual taxpayers with total positive income below $50,000 without a response from the taxpayer. About 14 percent of these nonresponsive taxpayers may have been unaware of the audit because IRS's initial audit contact notices were returned as undeliverable. Higher-income taxpayers did not respond to audit contact notices 20 percent of the time, with less than 6 percent of these audit notices being returned as undeliverable. See Taxpayer Advocate Service, *National Taxpayer Advocate Annual Report to Congress 2021*, (Washington, D.C.: December 31, 2021). For EITC claims, the National Bureau of Economic Research reported that IRS disallowed claims in up to 80 percent of audits analyzed because of undeliverable audit notices or inadequate taxpayer responses to the notices. See National Bureau of Economic Research, *The Effects of EITC Correspondence Audits on Low-Income Earners*, (Cambridge, MA: December 2019).

[30]IRS's return on investment calculation includes all audits, whereas the previous comparison in figure 6 of recommended tax per audit hour only includes audits of individual taxpayers.

amounts for all audit activities, such as general operation support costs of IRS audits and hours spent on non-audit tasks by auditors.

This approach accounts for the amounts collected from audits and for costs to conduct audits, as well as other non-audit costs. However, it does not include costs to assess and collect the recommended amounts. Further, some audit results and resources are difficult to quantify. For example, the calculations do not include the indirect effects of IRS audits on voluntary compliance of taxpayers who would otherwise seek to avoid meeting their tax obligations.[31] Nor do they account for recommended tax amounts that were potentially overstated. For example, when IRS disallows EITC benefits because IRS audit correspondence could not be delivered or because a taxpayer did not adequately respond to the correspondence, it is unclear what the audit results would have been had the taxpayer received and responded adequately to the correspondence.

Recommended Taxes Collected by Income Level

We attempted to analyze how much of the recommended taxes IRS ultimately collected for the income categories we used in our earlier analysis.[32] However, IRS's enforcement revenue system does not categorize collections by the income categories that we used.[33] IRS officials said that analyzing collections data by our income categories would require merging data from multiple systems. Therefore, for this part of our analysis, we used more general income categories than we used for the rest of our analyses. We found that IRS collected about 47 percent of all recommended additional taxes from individual taxpayer audits

[31]IRS discusses the indirect effects of audits in its *Fiscal Year 2022 Congressional Budget Justification & Annual Performance Report and Plan*.

[32]Given our scope, we did not further analyze IRS data to calculate a return on investment for each audit because IRS uses different income categories and different computer systems to track recommended taxes and the related amounts collected. Appendix I provides context on our analysis of collection rates by the income of the taxpayers audited.

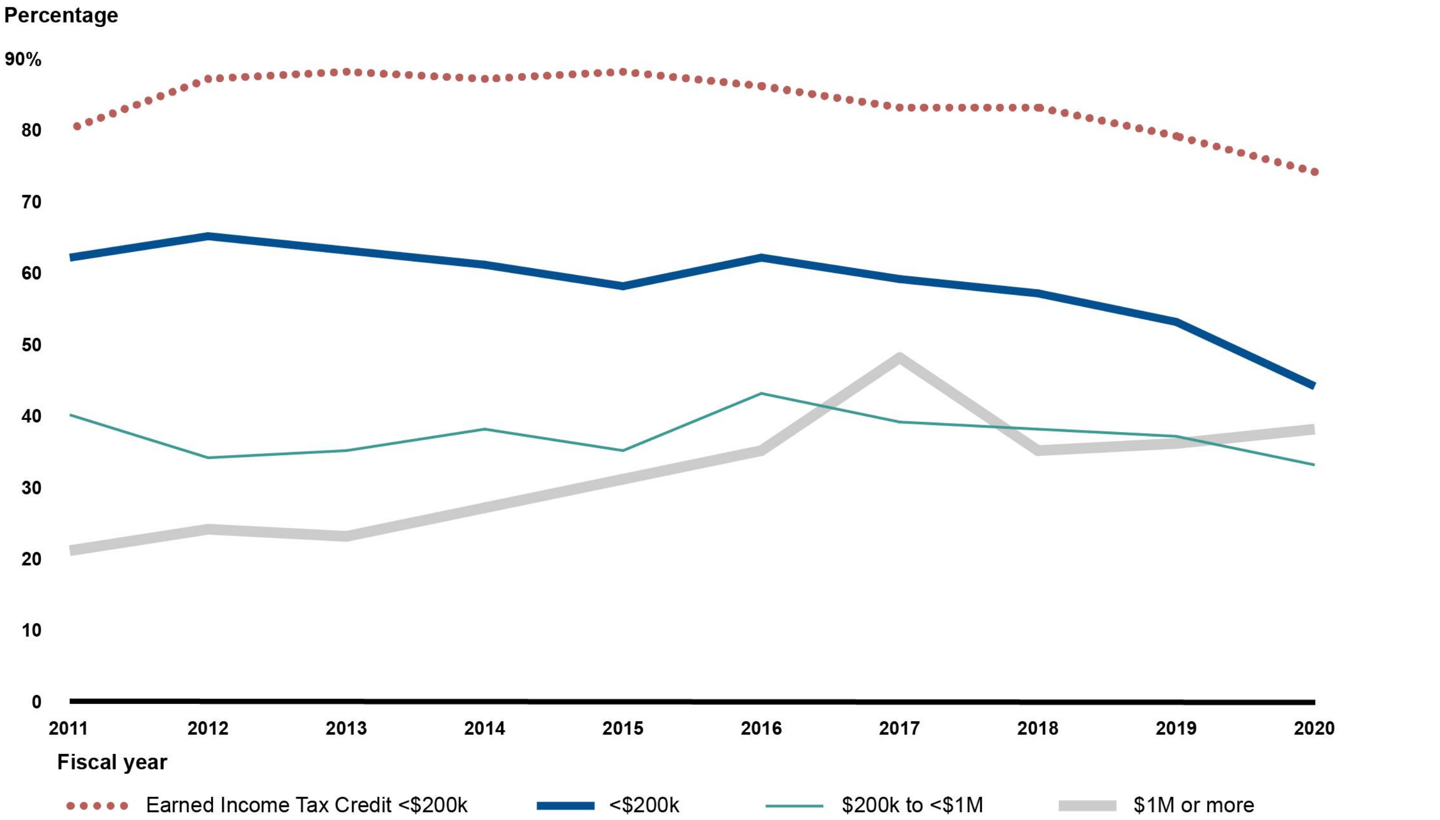
[33]IRS uses the Enforcement Revenue Information System (ERIS) to track the amount of additional taxes that it has assessed and collected from enforcement activities, including audits, over one or more fiscal years. ERIS does not readily track the incomes of taxpayers being audited. However, ERIS categorizes audits by broad income levels, which we used for our analyses.

closed in fiscal years 2011 to 2020.[34] Figure 7 shows collection rates were generally higher for EITC audits and lower-income audits. It also shows that collection rates have generally decreased for all income levels, except for audits of taxpayers with incomes of $1 million and over.[35] IRS officials said that collection rates for audits closed in more recent fiscal years will likely increase over time because it may take several years to collect taxes owed.

[34]To include disallowed credits in our analysis, IRS officials said that collected amounts will include both enforcement and non-enforcement revenue. In ERIS, non-enforcement revenue includes both credit adjustments and amounts collected prior to initiating an enforcement case, such as pre-payments or withholdings, that offset the tax liability determined at the conclusion of the case. According to IRS officials, these amounts cannot be estimated reliably enough to calculate the portion of non-enforcement revenue from credit adjustments.

[35]See Appendix IV, figure 11 for more detailed data on collection rates from audits. For example, the appendix figure shows that for non-EITC returns, the collection rates from audits tended to be lower for individual taxpayers reporting income from business activities compared to individuals without business-related income.

Figure 7: Percent of Recommended Taxes Collected from Individual Taxpayer Audits Closed in Fiscal Years 2011 to 2020, by Total Positive Income and Earned Income Tax Credit (EITC)



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 7

Fiscal Year	Earned Income Tax Credit only <$200k	<$200k	$200k to <$1M	$1M or more
2011	80%	62%	40%	21%
2012	87%	65%	34%	24%
2013	88%	63%	35%	23%
2014	87%	61%	38%	27%
2015	88%	58%	35%	31%
2016	86%	62%	43%	35%
2017	83%	59%	39%	48%
2018	83%	57%	38%	35%
2019	79%	53%	37%	36%
2020	74%	44%	33%	38%

Note: This figure represents only the percent of recommended additional taxes collected, and does not take into account assessed amounts. In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0.

IRS officials explained that EITC and lower-income audits had higher collection rates because IRS conducts most of these audits before issuing refunds. As a result, IRS does not need to collect the assessed amounts since it already possesses the tax amounts in question. In addition, IRS automatically assesses the recommended tax amounts when taxpayers do not respond to IRS's correspondences.

According to IRS officials, higher-income audits generally had lower collection rates because they are more likely to involve higher recommended tax amounts that may be abated or more difficult to fully collect.[36] In particular, IRS officials said that, in earlier years, a larger portion of recommended tax changes for higher-income taxpayers was associated with correspondence audits, which had a higher abatement rate and thus reduced collections. They added that the collection rate for audits of taxpayers with incomes of $1 million or above depends on a relatively small number of taxpayers. Therefore, a few large payments, such as for 2017, can increase the collection rate.

Agency Comments and Our Evaluation

We provided a draft of this report to the Commissioner of Internal Revenue for comment. In its comments, reproduced in appendix V, IRS agreed with our findings. IRS highlighted its concern about drawing conclusions from aggregated data and suggested that analyzing data by audit type or identification method may yield additional insights. As we noted in the report, such analysis was beyond the scope of this review. IRS also provided technical comments on our draft report, which we incorporated as appropriate.

We are sending copies of this report to the Commissioner of Internal Revenue, the Secretary of the Treasury, the appropriate congressional committees, and other interested parties. In addition, the report is available at no charge on the GAO website at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-6806 or McTigueJ@gao.gov. Contact points for our

[36]Abatements reduce the amounts that taxpayers owe.

Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in appendix VI.

Sincerely yours,

James R. McTigue, Jr.

James R. McTigue, Jr.
Director, Strategic Issues
Tax Policy and Administration

Appendix I: Objectives, Scope, and Methodology

As discussed below, we analyzed data for the most recent years available to determine (1) audit rates by selected income categories and the reasons for differences across these categories, and (2) audit outcomes and resources used for auditing individual tax returns across the income categories and the likely reasons for any trends. Our scope of work focused on taxpayer income and did not include analyzing audits by other characteristics, such as type of audit, type of auditor, or audit location.

Income levels. The Internal Revenue Service's (IRS) 2020 Data Book Table 17 provides data on audit rates and results by various groupings of total positive income.[1] However, for our analysis and to simplify reporting, we developed fewer, broader income categories by combining IRS's income groupings, as shown in table 2. We analyzed IRS data using our broader income categories and compared the results with IRS's groupings. When the finer-level analysis provided additional insight, we discuss those insights in the report. In general, we used our broad income categories throughout the report to discuss general audit trends.

Table 2: Comparison of Internal Revenue Service's (IRS) and GAO's Income Categories by Number of Returns and Number of Audits, Tax Year 2019

IRS Data Book Income Categories	Number of Returns	Number of Audits	Combined Income Categories	Number of Returns	Number of Audits
$1 to <$25K	49,276,854	196,717	**$1 to <$25K**	49,276,854	196,717
$25K to <$50K	37,980,961	72,669	**$25K to <$200K**	97,975,011	162,308
$50K to <$75K	22,635,798	32,285			
$75K to <$100K	14,507,318	20,139			
$100K to <$200K	22,850,934	37,215			
$200K to <$500K	7,784,215	13,469	**$200K to <$500K**	7,784,215	13,469
$500K to <$1M	1,298,420	6,863	**$500K to <$5M**	1,873,133	12,748
$1M to <$5M	574,713	5,885			
$5M to <$10M	40,191	549	**$5M or more**	64,648	1,510
$10M or more	24,457	961			

[1] In general, total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0.

Source: GAO analysis of IRS data. | GAO-22-104960

Similar to IRS, our income categories include returns with the Earned Income Tax Credit (EITC). We also analyzed EITC returns as a separate category because of their high volume and improper payment reporting requirements. To calculate totals and averages, we excluded the separate EITC category because EITC returns were already included in other income categories, as appropriate.

We excluded two IRS groupings from our broad income categories: (1) international returns, due to their complicated nature and audit issues; and (2) returns with no total positive income. According to IRS, both filers with no positive income and nonfilers are included in this group. For nonfilers, IRS's automated substitute-for-return process uses income information returns to estimate the correct tax liability and develop substitute tax returns. Because the substitute-for-return process does not use information returns reporting deductions (e.g., Forms 1098) and does not calculate credits that taxpayers could potentially claim had they filed their own tax return, we determined, and IRS officials confirmed, that recommended additional tax owed for this group was inflated and therefore should not be used to analyze audit trends.

Audit Rates. To calculate audit rates, we divided the total number of closed and in-progress audits for a given tax year by the number of returns filed for that tax year. We determined the number of audits from IRS's audit management system. We obtained these data in January 2022, which is more recent than the end of fiscal year 2020, the cutoff date IRS uses for its 2020 Data Book. Therefore, our audit rate calculations will generally be higher compared to IRS's Data Book, because from October 2020 to December 2021, IRS continued to select additional returns to audit. We determined the number of returns filed for tax years 2010 to 2018 using IRS's 2020 Data Book. For the number of returns filed for tax year 2019, we relied on data IRS provided in November 2021. We analyzed audit rates by tax year, instead of fiscal year, to align with how IRS currently calculates the audit coverage rate published in its Data Book. We analyzed data starting from tax year 2010 to the most recent tax year available at the time of our review.

Audit Results and Resources. We analyzed audit results in terms of (1) amount of additional taxes the auditor recommended, including protected revenue from pre-refund audits, and (2) rate of audits resulting in no changes to taxes owed. IRS considers adjustments to the return as a change, even if the amount of taxes owed did not change, because, according to IRS officials, these adjustments may affect related returns.

We differed from IRS's methodology and considered adjusted returns with no change in taxes owed as a "no change" audit because IRS did not recommend additional taxes from auditing the primary return. IRS officials said that recommended additional taxes reflect the amount that IRS assessed and entered into its data systems. IRS does not adjust these amounts for inflation in its Data Book.

IRS tracks audit resources in terms of number of hours that auditors spent on audit activities. This time does not include time charged for administrative support or other audit-related activities.

For both audit results and resources, we analyzed data from closed audits by fiscal year, rather than tax year, because many audits for recent tax years are still in progress. Analyzing audits closed during a fiscal year, which can include returns from multiple tax years, allowed us to analyze more years (fiscal years 2010 through 2021) and ensure that we compared complete results across all years.

We presented our analysis using averages rather than medians because (1) IRS had previously published averages rather than medians in its Data Book, and (2) medians may be difficult to interpret when data are not evenly distributed. We recognize that outlier data can distort averages. To mitigate this risk, we shared our preliminary analysis with IRS officials to better understand our calculated averages. IRS officials indicated that our use of averages seemed reasonable and discussed factors that might be driving them, which we discuss in the report.

To provide additional context on audit results, we compared recommended tax amounts to the amounts ultimately collected after the audit. We obtained summary statistics of the recommended and collected tax amounts from IRS's system that tracks enforcement revenue, such as from audits, which differs from IRS's system for managing audits. Because audit management and collections data reside on different systems, we were unable to determine collected tax amounts by the income categories we developed or compare them with our analysis of recommended additional tax. We therefore analyzed the collection data using the income categories from IRS's enforcement revenue system. We analyzed data from individual taxpayer audits closed in fiscal years 2011 through 2020 to determine the percent of taxes recommended that were collected for audits closed in a given fiscal year.

Within the scope of our review, we could not further analyze audit-level data to calculate a return on investment for each audit because IRS officials said that IRS tracks the number of audit hours separately from the cost of audit hours, which varies by auditor's position and experience, among other factors.

The data we used in this report were the most recent data available at the time of our review. To assess the reliability of this data, we interviewed IRS officials and assessed documentation for any data limitations, which we note, as applicable, within the report. We compared those results to our data reliability standards and determined that the data presented in this report are sufficiently reliable for the purposes of our objectives.

Documentation Review and Interviews. For both objectives, we reviewed documentation related to IRS's budget, audit statistics, and data systems and variables related to individual taxpayer audits. We also reviewed our prior related reports, including those discussing correspondence audits, IRS human capital management, and the EITC.

For both objectives, we interviewed IRS officials who are responsible for managing the status and results of audits, primarily in the Small Business/Self-Employed, Large Business and International, and Wage and Investment divisions. To obtain and better understand audit collections data, we interviewed IRS officials from the Research, Applied Analytics, and Statistics division who analyze enforcement collection data. We discussed our preliminary analyses with these officials for their perspective on our results and to identify contextual factors contributing to trends and changes in audit rates and results.

We conducted this performance audit from February 2021 to May 2022 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

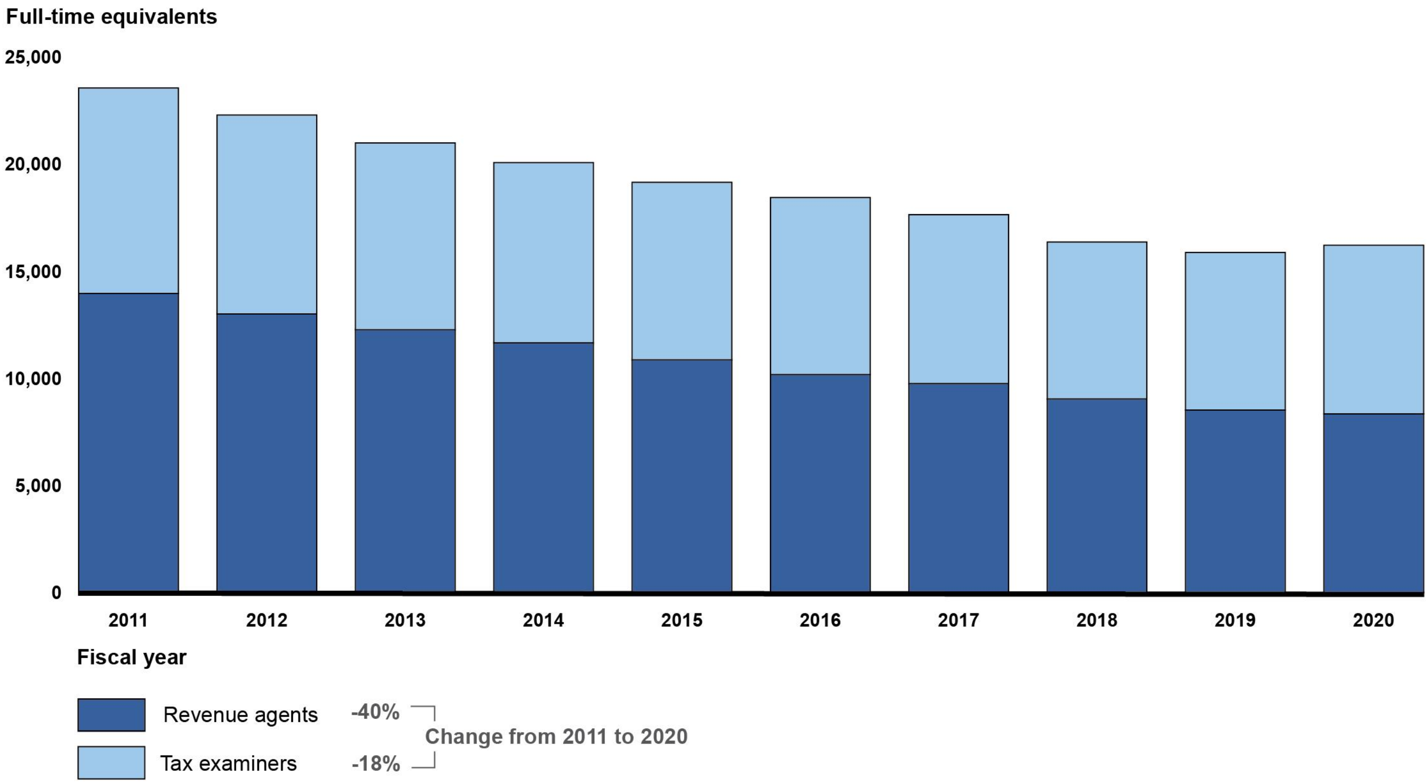
Appendix II: Internal Revenue Service Staffing

The Internal Revenue Service (IRS) relies on thousands of employees with different skills and experience to audit returns. For example:

- *Tax examiners* audit a limited range of tax topics, usually through correspondence audits of individuals and small businesses.
- *Revenue agents* conduct extensive, in-person field audits at a taxpayer’s home or place of business, focusing on more complex tax returns.

IRS estimates about 15 percent of current tax examiners and revenue agents will retire in the next 3 years. Specifically, based on historical experience, IRS projects that about 16 percent of current revenue agents (1,329 out of 8,418) and about 14 percent of current tax examiners (1,779 out of 12,675) will retire in the next 3 years. As shown in figure 8, since fiscal year 2011, revenue agents, who work on more complex audits, have decreased by more than 40 percent compared to a decrease of about 18 percent for tax examiners, who work on less complex audits.

Figure 8: Internal Revenue Service (IRS) Audit Staffing by Position, Full-Time Equivalents, Fiscal Years 2011 to 2020



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 8 (Part 1 of 2)

	Revenue agents (Full-time equivalents)	Tax examiners (Full-time equivalents)
2011	13,969	9,587
2012	13,011	9,282
2013	12,270	8,724
2014	11,659	8,416
2015	10,862	8,294
2016	10,174	8,267
2017	9,759	7,887
2018	9,037	7,328
2019	8,526	7,355
2020	8,346	7,868

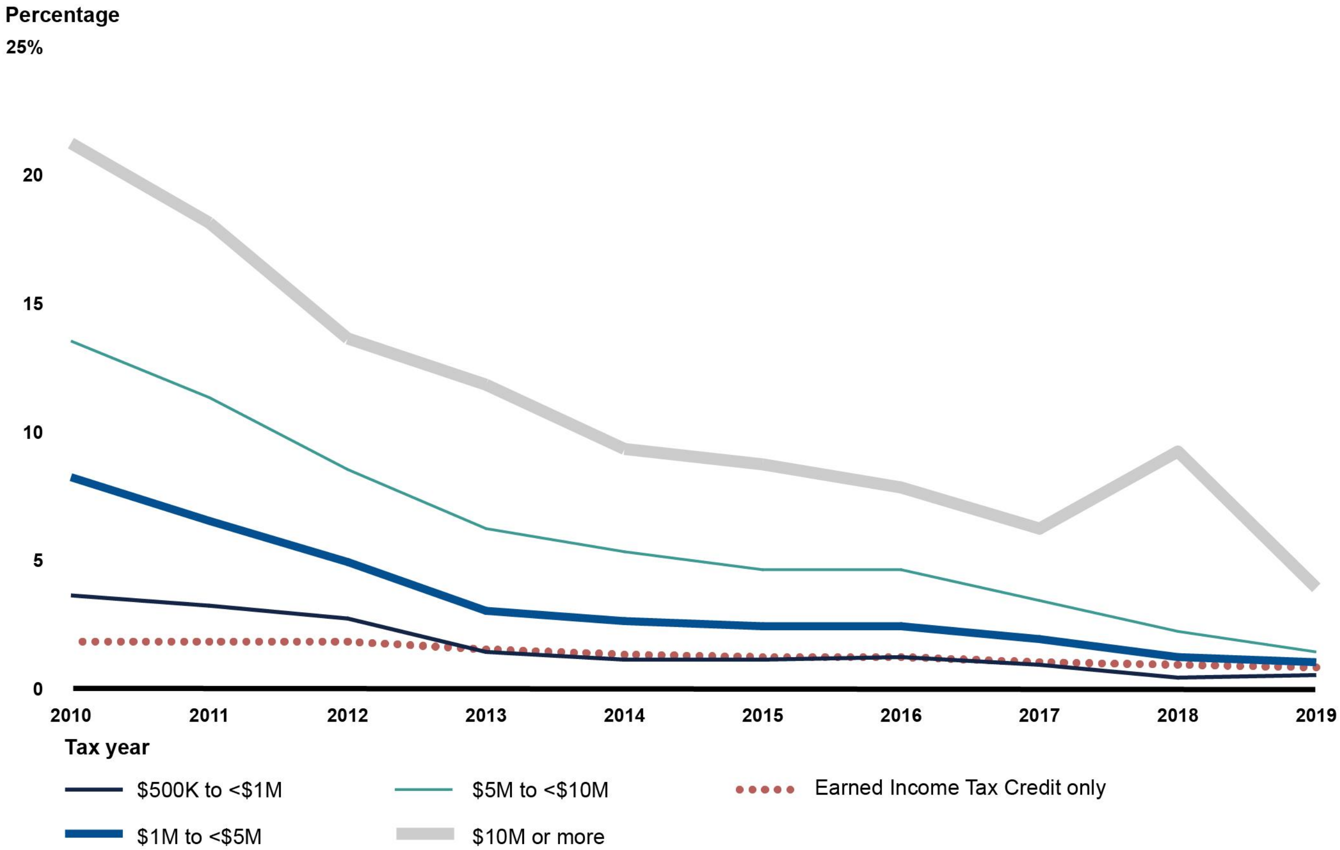
Accessible Data Table for Figure 8 (Part 2 of 2)

	Revenue agents (Full-time equivalents)	Tax examiners (Full-time equivalents)
Change from 2011 to 2020	-40%	-18%

Note: This figure does not include all enforcement staff, including tax compliance officers, who conduct limited-complexity, in-person audits at IRS offices.

Appendix III: Additional Tables and Graphs on Internal Revenue Service Audit Rates for Individual Taxpayers, Tax Years 2010 to 2019

Figure 9: Audit Rates of Individual Tax Returns by Select Taxpayer Total Positive Income Categories and Earned Income Tax Credit (EITC), Tax Years 2010 to 2019



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 9

Fiscal Year	$500K to <$1M	$25k to <$200k	$200k to <$500k	$10M or more	Earned Income Tax Credit only
2010	3.60%	8.20%	13.50%	21.20%	1.80%
2011	3.20%	6.50%	11.30%	18.10%	1.80%
2012	2.70%	4.90%	8.50%	13.60%	1.80%
2013	1.40%	3.00%	6.20%	11.80%	1.50%
2014	1.10%	2.60%	5.30%	9.30%	1.30%
2015	1.10%	2.40%	4.60%	8.70%	1.20%
2016	1.20%	2.40%	4.60%	7.80%	1.20%
2017	0.90%	1.90%	3.40%	6.20%	1.00%
2018	0.40%	1.20%	2.20%	9.20%	0.90%
2019	0.50%	1.00%	1.40%	3.90%	0.80%

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Table 3: Audit Rates (Percentages), Number of Audits (Thousands), and Number of Individual Tax Returns (Thousands) by Taxpayer Total Positive Income and Earned Income Tax Credit (EITC)

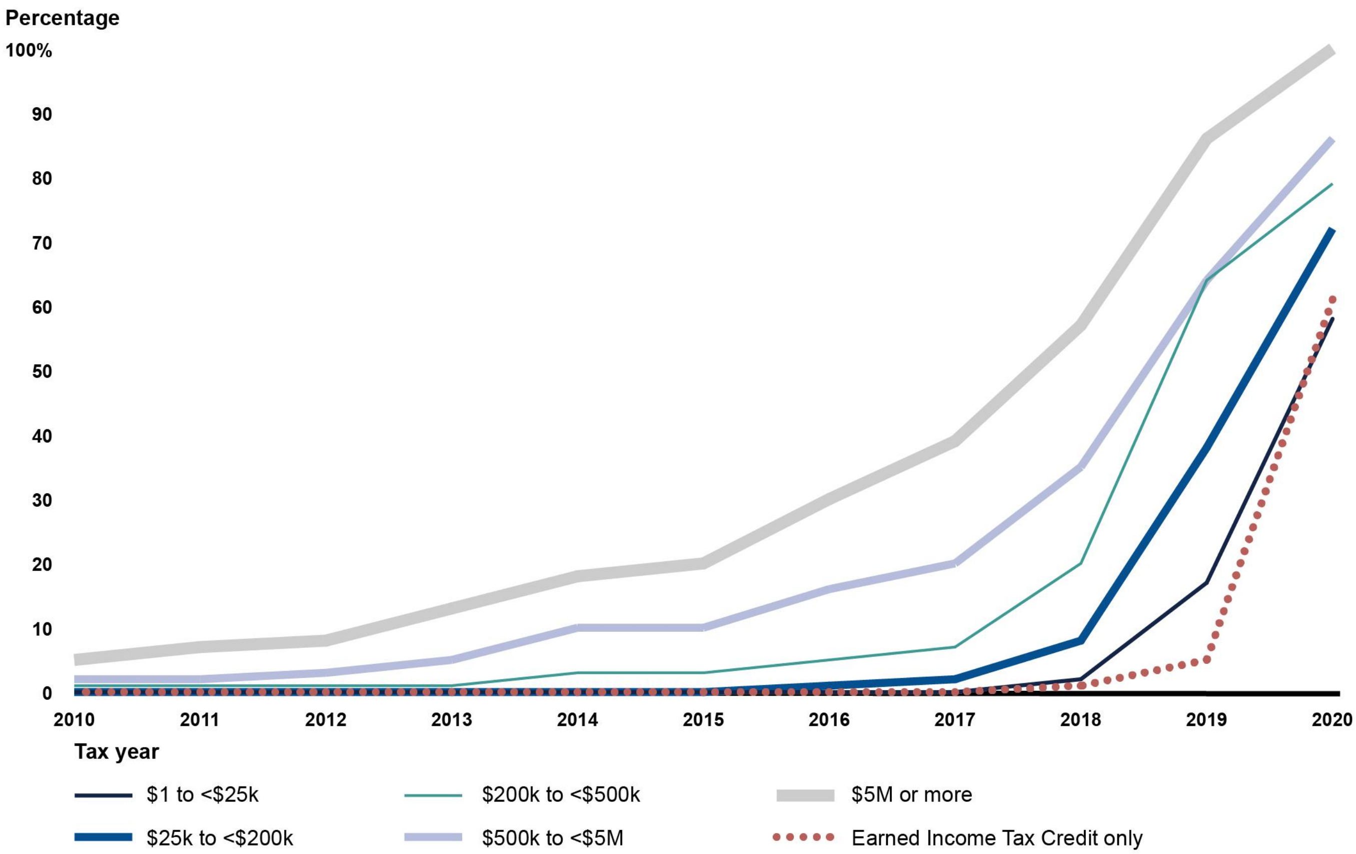
Tax Years		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change from 2010 to 2019
$1 to <$25K	Audit rates	1.0%	1.0%	1.0%	0.8%	0.7%	0.7%	0.6%	0.6%	0.4%	0.4%	-61%
	Audits	578.9	571.4	548.7	464.9	390.9	357.9	339.9	297.2	208.2	196.7	-66%
	Returns	56,319	57,464	56,005	56,100	54,883	54,054	52,677	51,854	49,364	49,277	-13%
$25K to <$50K	Audit rates	0.6%	0.6%	0.4%	0.4%	0.4%	0.4%	0.4%	0.2%	0.3%	0.2%	-69%
	Audits	211.1	192.4	145.6	121.9	147.9	142.1	131.0	87.4	91.9	72.7	-66%
	Returns	34,653	34,604	34,191	34,699	35,053	35,552	35,816	36,112	36,665	37,981	10%
$50K to <$75K	Audit rates	0.7%	0.5%	0.4%	0.3%	0.4%	0.5%	0.3%	0.3%	0.2%	0.1%	-79%
	Audits	131.1	88.4	80.5	63.8	82.9	108.6	68.6	71.4	46.2	32.3	-75%
	Returns	19,047	19,234	19,297	19,499	19,641	20,264	20,578	21,252	21,730	22,636	19%
$75K to <$100K	Audit rates	0.7%	0.5%	0.4%	0.4%	0.4%	0.5%	0.4%	0.4%	0.2%	0.1%	-79%
	Audits	80.0	57.3	52.1	52.9	49.8	64.7	49.4	57.3	30.5	20.1	-75%
	Returns	12,241	12,240	12,414	12,768	13,080	13,055	13,199	13,631	13,988	14,507	19%
$100K to <$200K	Audit rates	0.8%	0.6%	0.5%	0.5%	0.4%	0.5%	0.4%	0.4%	0.2%	0.2%	-81%
	Audits	127.6	96.3	86.9	90.4	74.1	93.1	86.7	93.9	53.2	37.2	-71%
	Returns	15,017	15,768	16,635	17,487	18,437	19,459	19,755	20,929	22,077	22,851	52%
$200K to <$500K	Audit rates	2.3%	1.7%	1.6%	0.8%	0.6%	0.6%	0.5%	0.4%	0.3%	0.2%	-92%
	Audits	88.4	70.1	73.9	40.5	30.4	32.7	32.9	28.6	18.9	13.5	-85%
	Returns	3,870	4,226	4,578	4,935	5,423	5,885	6,052	6,721	7,377	7,784	101%
$500K to <$1M	Audit rates	3.6%	3.2%	2.7%	1.4%	1.1%	1.1%	1.2%	0.9%	0.4%	0.5%	-85%
	Audits	23.2	22.6	21.7	12.0	10.7	11.6	12.1	10.1	5.4	6.9	-70%
	Returns	639	701	805	838	954	1,011	1,017	1,140	1,249	1,298	103%
$1M to <$5M	Audit rates	8.2%	6.5%	4.9%	3.0%	2.6%	2.4%	2.4%	1.9%	1.2%	1.0%	-87%
	Audits	24.4	20.7	20.0	11.1	11.3	11.2	10.9	9.9	6.7	5.9	-76%
	Returns	298	320	405	371	431	463	450	512	566	575	93%
$5M to <$10M	Audit rates	13.5%	11.3%	8.5%	6.2%	5.3%	4.6%	4.6%	3.4%	2.2%	1.4%	-90%
	Audits	2.8	2.6	2.6	1.6	1.7	1.6	1.4	1.3	0.9	0.5	-81%
	Returns	21	23	31	26	31	34	31	37	41	40	92%
$10M or more	Audit rates	21.2%	18.1%	13.6%	11.8%	9.3%	8.7%	7.8%	6.2%	9.2%	3.9%	-81%

Tax Years		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Change from 2010 to 2019
	Audits	2.8	2.5	2.8	1.8	1.8	1.8	1.5	1.4	2.4	1.0	-66%
	Returns	13	14	20	15	19	21	19	23	27	24	84%
Averages	**Audit rates**	**0.9%**	**0.8%**	**0.7%**	**0.6%**	**0.5%**	**0.6%**	**0.5%**	**0.4%**	**0.3%**	**0.2%**	**-72%**
Totals	**Audits**	**1,270.3**	**1,124.2**	**1,034.8**	**860.8**	**801.5**	**825.3**	**734.2**	**658.5**	**464.4**	**386.8**	**-70%**
	Returns	**142,118**	**144,594**	**144,381**	**146,739**	**147,953**	**149,799**	**149,595**	**152,211**	**153,086**	**156,974**	**10%**
EITC Only	*Audit rates*	*1.8%*	*1.8%*	*1.8%*	*1.5%*	*1.3%*	*1.2%*	*1.2%*	*1.0%*	*0.9%*	*0.8%*	*-58%*
	Audits	*496.0*	*492.9*	*509.9*	*425.4*	*360.3*	*328.9*	*330.2*	*283.4*	*242.0*	*205.0*	*-59%*
	Returns	*27,368*	*27,912*	*27,848*	*28,822*	*28,538*	*28,082*	*27,383*	*27,030*	*26,492*	*26,738*	*-2%*

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Figure 10: Percent of All Open Audits by Total Positive Income and Earned Income Tax Credit (EITC), Tax Years 2010 to 2020



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 10

Fiscal Year	$1 to <$25k	$25k to <$200k	$200k to <$500k	$500k to <$5M	$5M or more	Earned Income Tax Credit only
2010	0%	0%	1%	2%	5%	0%
2011	0%	0%	1%	2%	7%	0%
2012	0%	0%	1%	3%	8%	0%
2013	0%	0%	1%	5%	13%	0%
2014	0%	0%	3%	10%	18%	0%
2015	0%	0%	3%	10%	20%	0%
2016	0%	1%	5%	16%	30%	0%
2017	0%	2%	7%	20%	39%	0%
2018	2%	8%	20%	35%	57%	1%
2019	17%	38%	64%	64%	86%	5%
2020	58%	72%	79%	86%	100%	61%

Note: Data are current as of January 2022. Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Appendix IV: Additional Tables and Graphs on Internal Revenue Service Audit Results and Resources for Individual Taxpayers, Fiscal Years 2010 to 2021

Table 4: Average Recommended Additional Tax from All Audits, by Taxpayer Total Positive Income and Earned Income Tax Credit (EITC), in Thousands of U.S. Dollars, Fiscal Years 2010 to 2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$1 to <$25K	3.8	4.5	5.2	4.5	4.2	4.6	4.9	5.0	4.8	4.7	5.2	5.2
$25K to <$50K	3.2	3.7	4.4	4.8	4.6	5.3	5.6	6.6	5.4	5.3	5.6	6.1
$50K to <$75K	3.2	3.5	4.6	4.6	4.6	4.8	6.1	5.0	4.8	5.0	5.7	5.2
$75K to <$100K	4.0	4.1	4.7	5.1	5.5	5.7	5.2	5.6	5.4	5.6	6.2	7.1
$100K to <$200K	5.6	5.8	6.0	6.4	6.5	6.7	6.1	6.9	7.5	7.2	8.5	8.1
$200K to <$500K	7.5	8.7	8.2	8.3	7.7	8.9	9.6	11.3	13.1	17.0	21.2	18.3
$500K to <$1M	14.6	20.5	16.9	16.9	14.1	11.0	16.4	19.4	28.7	26.2	30.5	29.3
$1M to <$5M	25.6	28.7	26.1	26.6	26.2	19.9	32.9	33.8	46.1	50.9	61.9	62.7
$5M to <$10M	68.1	100.9	89.9	57.7	46.1	39.5	60.5	74.1	108.0	83.1	98.2	193.9
$10M or more	577.2	258.9	140.9	197.4	234.5	185.2	192.8	208.8	470.7	304.6	226.9	344.2
Average	**5.9**	**6.2**	**6.6**	**6.5**	**6.4**	**6.9**	**7.3**	**7.6**	**7.9**	**8.0**	**9.5**	**9.3**
EITC Only	*4.2*	*4.2*	*4.2*	*4.4*	*4.0*	*4.5*	*4.8*	*4.7*	*4.6*	*4.3*	*4.3*	*5.0*

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Table 5: Total Recommended Additional Tax from All Audits, by Taxpayer Total Positive Income and Earned Income Tax Credit (EITC), in Millions of U.S. Dollars, Fiscal Years 2010 to 2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$1 to <$25K	2,496	2,756	3,015	2,576	2,085	2,274	2,068	1,818	1,670	1,223	860	1,288
$25K to <$50K	762	795	1,037	1,025	744	757	844	1,007	830	518	337	645
$50K to <$75K	501	492	564	512	413	365	451	469	521	359	214	350

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$75K to <$100K	330	369	382	346	317	301	317	334	336	279	191	328
$100K to <$200K	633	798	815	741	643	628	661	645	687	584	520	587
$200K to <$500K	587	780	684	696	580	622	541	484	474	490	445	440
$500K to <$1M	323	552	389	406	366	293	311	303	356	276	229	259
$1M to <$5M	588	790	715	742	621	542	642	545	550	523	505	616
$5M to <$10M	201	323	342	198	146	171	195	196	191	119	119	248
$10M or more	1,668	712	540	633	753	873	711	641	896	533	345	674
Total	**8,088**	**8,367**	**8,483**	**7,874**	**6,669**	**6,826**	**6,742**	**6,441**	**6,510**	**4,903**	**3,765**	**5,434**
EITC Only	*1,971*	*2,038*	*2,047*	*2,111*	*1,749*	*1,990*	*1,825*	*1,551*	*1,508*	*1,107*	*685*	*1,376*

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

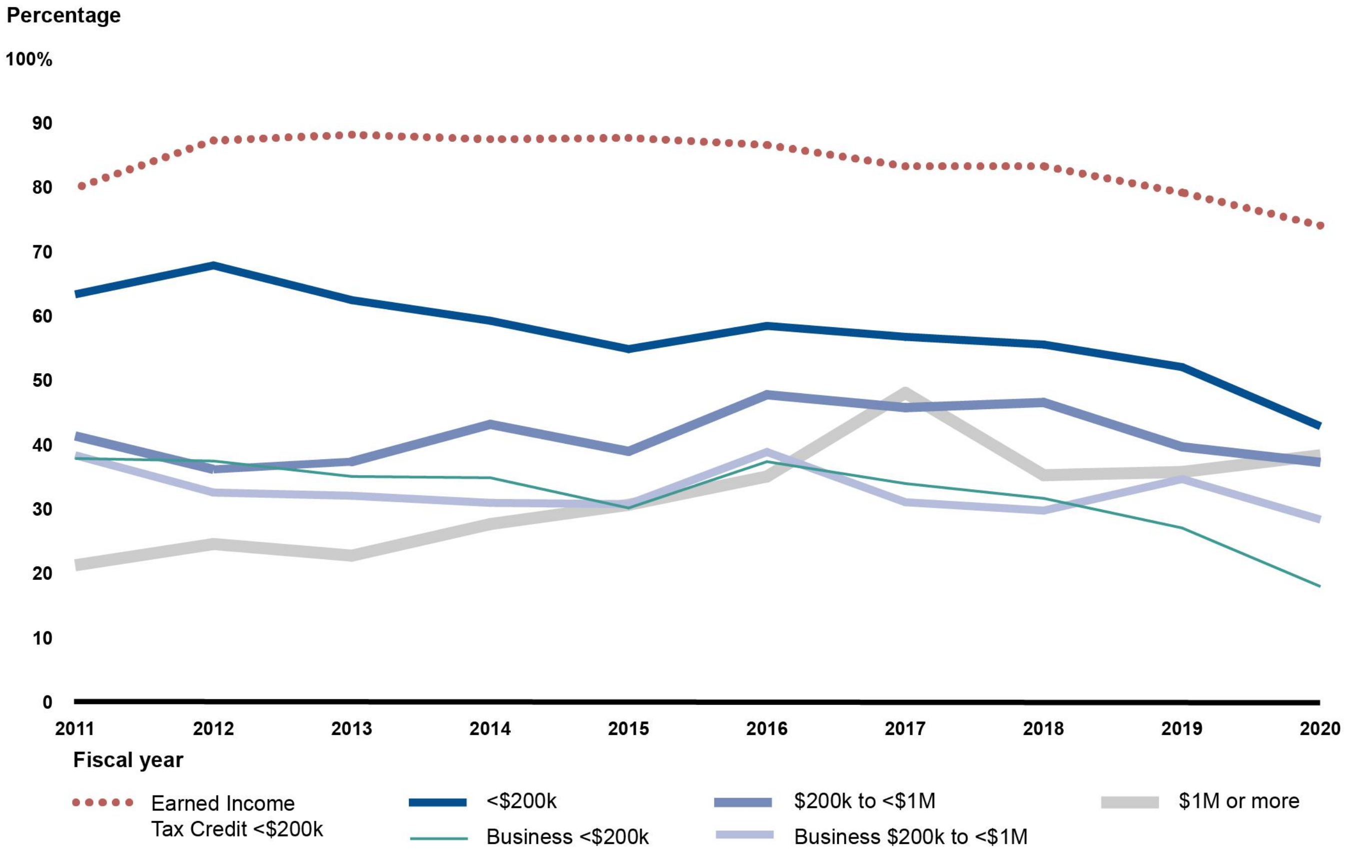
Table 6: Recommended Additional Tax from All Audits, Per Audit Hour, by Taxpayer Total Positive Income and Earned Income Tax Credit (EITC), in Thousands of U.S. Dollars, Fiscal Years 2010 to 2021

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
$1 to <$25K	1.84	1.93	2.21	1.97	1.68	2.06	2.04	1.94	2.06	1.86	1.98	2.12
$25K to <$50K	0.70	0.73	0.98	0.96	0.88	1.04	1.19	1.49	1.37	1.19	1.14	1.50
$50K to <$75K	0.56	0.55	0.65	0.67	0.65	0.64	0.83	0.90	1.08	1.01	0.98	1.03
$75K to <$100K	0.51	0.54	0.61	0.63	0.63	0.64	0.68	0.80	0.87	0.95	0.93	1.06
$100K to <$200K	0.52	0.58	0.64	0.63	0.60	0.63	0.66	0.74	0.85	0.91	0.93	0.76
$200K to <$500K	0.74	0.79	0.72	0.71	0.66	0.75	0.72	0.76	0.82	0.91	1.14	0.88
$500K to <$1M	1.14	1.53	1.16	1.13	1.17	0.94	1.07	1.08	1.31	1.01	1.16	1.06
$1M to <$5M	1.41	1.61	1.46	1.38	1.33	1.22	1.51	1.47	1.44	1.41	1.80	1.59
$5M to <$10M	3.89	5.05	5.29	3.07	2.21	2.77	3.36	3.65	3.09	2.25	2.54	3.97
$10M or more	28.48	9.35	6.21	6.19	6.44	7.42	6.24	6.54	9.94	4.28	4.37	5.32
Average	**1.19**	**1.12**	**1.19**	**1.14**	**1.09**	**1.21**	**1.25**	**1.33**	**1.45**	**1.31**	**1.39**	**1.44**
EITC Only	*4.17*	*4.44*	*4.17*	*3.39*	*3.36*	*3.95*	*4.19*	*3.71*	*3.62*	*2.81*	*2.71*	*3.13*

Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Note: In general, total positive income (TPI) is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0. Audits with the EITC are included in the appropriate TPI categories, and are also shown as a separate category to facilitate comparisons.

Figure 11: Percent of Recommended Taxes Collected from Individual Taxpayer Audits Closed in Fiscal Years 2011 to 2020, by Total Positive Income, Earned Income Tax Credit (EITC), and Source



Source: GAO analysis of Internal Revenue Service data. | GAO-22-104960

Accessible Data Table for Figure 11

Fiscal Year	Earned Income Tax Credit <$200K	<$200k	Business <$200k	$200k to <$1M	Business $200k to <$1M	$1M or more
2011	80%	63%	38%	41%	38%	21%
2012	87%	68%	37%	36%	32%	24%
2013	88%	62%	35%	37%	32%	23%
2014	87%	59%	35%	43%	31%	28%
2015	88%	55%	30%	39%	31%	31%
2016	86%	58%	37%	48%	39%	35%
2017	83%	57%	34%	46%	31%	48%
2018	83%	55%	32%	46%	30%	35%
2019	79%	52%	27%	40%	35%	36%
2020	74%	43%	18%	37%	28%	38%

Note: This figure represents only the percent of recommended additional taxes collected, and does not take into account assessed amounts. For this analysis, business income is defined as non-farm and farm income reported on individual returns from Schedules C and F. In general, total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual tax return, and losses are treated as $0.

Appendix V: Comments from the Internal Revenue Service

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

DEPUTY COMMISSIONER

April 28, 2022

Mr. James R. McTigue, Jr.
Director, Strategic Issues
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. McTigue:

Thank you for the opportunity to review and comment on this draft report titled *Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income*.

Ensuring fairness in the United States Federal tax system requires every person and business to timely and accurately report and pay their tax liabilities. Most do but many millions do not, causing a large and growing Tax Gap. An important component of ensuring fairness is auditing individuals and businesses and requiring those who have underpaid to pay the appropriate amount and for those who have overpaid to be issued a refund.

Auditing requires auditors to properly respond to taxpayers with increasingly complex business and investment activities. Greater complexity requires greater IRS sophistication and skill as well as applying more time to perform the necessary review of information and to properly apply the law. The more complex the audit the more time is required of our most experienced auditors and others involved, such as those with specialized expertise (e.g., international and valuation) and Chief Counsel. The IRS has lost to attrition many thousands of employees, including those with the most sophisticated skills. We have been unable to replace them due to shrinking appropriations. As your report reflects, we have seen our funding shrinking for years. Appropriations have not kept pace with population and economic growth for decades. Current staffing is nearly identical to the level of staffing for the IRS in 1973.

This reduction in personnel has resulted in challenges to overall tax administration, including our ability to deliver adequate customer service, audit coverage, collecting on taxes owed, closing the tax gap, funding the government, and IT modernization. Indeed, every measure that is important to proper tax administration has decreased significantly.

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As your report shows, we audit a greater percentage of high income high wealth taxpayers than those with lower income despite the fact that those audits tend to be the most complex and labor-intensive. In addition, your report reflects that we have taken significant steps to increase the coverage of those with income above $10 million, but this has come at the expense of other priority programs. We cannot maintain adequate coverage of priority programs as we continue to lose employees. This is the case for examinations of individuals and businesses as well as our work to collect from those who have not timely paid, and conducting criminal investigations of those whose activities suggest tax fraud.

You also state that our audit rate for Earned Income Tax Credit (EITC) claims has decreased at a slower rate than other audits. We are subject to the Payment Integrity Information Act (PIIA), which requires the IRS to conduct an annual risk assessment to identify programs and activities that may be susceptible to significant improper payments and to report on actions we plan to take to prevent future improper payments. EITC is one such program. With respect to the EITC, the improper payment rate reported by the Department of the Treasury for Fiscal Year 2019 was 25.3%, totaling $17.4 billion.

To help minimize improper payments, the IRS conducts an audit program for returns claiming EITC. We average approximately 300,000 EITC audits per year out of more than 25 million EITC claims. EITC exams are conducted by mail and usually occur before the refund is issued. Qualifying children issues are the largest cause of the error rate. There is no third-party source that IRS can use to determine if a qualifying child meets all the EITC eligibility requirements. The only means is to conduct an examination requesting documentation from the taxpayer.

The average time to complete an EITC audit is approximately five hours per return. The typical audits for higher-income taxpayers involve at least three different tax years, often include related entities, and routinely take years to resolve. The highest income taxpayers face the most significant chance of an examination, and they face the most highly trained and experienced IRS agents and teams utilizing our most sophisticated tools and techniques.

Despite the time and resources it takes to examine higher-income taxpayers, the IRS remains fully committed to examining a higher percentage of the returns filed each year. Auditing a meaningful percentage of the highest income taxpayers is critical to maintaining confidence in the integrity of our tax system.

Finally, we must emphasize that it may be difficult to draw broad conclusions from aggregated data from disparate workstreams. For example, Figure 5 in the draft report shows average hours per audit across different income ranges. This includes all audits, including correspondence audits (which are high volume and require relatively little employee time per return) and field exams (which are lower volume and require significant employee time). We believe more insights can be gained by analyzing our varied workstreams separately.

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The IRS strives to properly serve compliant taxpayers and uphold the nation's tax laws. We face tough choices each year regarding where to deploy limited resources given the breadth of our responsibilities, but our choices are guided by fair and impartial audit plans throughout the process.

Once again, thank you for the opportunity to review and comment on the draft report. If you have any questions, please contact me, or a member of your staff may contact Andrew Beckwith at (202) 317-4047.

Sincerely,

Douglas W. Odonnell

Digitally signed by Douglas W. Odonnell
Date: 2022.04.28 08:41:36 -04'00'

Douglas W. O'Donnell
Deputy Commissioner, Services and Enforcement

Appendix VI: GAO Contact and Staff Acknowledgments

GAO Contact

James R. McTigue, Jr., 202-512-6806, mctiguej@gao.gov

Staff Acknowledgments

In addition to the contact named above, Tom Short (Assistant Director), Maya Chakko (Analyst-in-Charge), Elizabeth Fan (Analyst-in-Charge), George Guttman, Jesse Mitchell, and Meredith Moles made key contributions to this report. Also contributing to this report were Nina Crocker, Thomas Friend, Robert Gebhart, Gina Hoover, Carl Nadler, Joe Suh, Peter Verchinski, and Alicia White.

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