

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

TAXES

IRS Promises Fewer Audits of EITC Claims

After years of auditing some taxpayers with lower incomes at higher rates, the commissioner of the IRS said that will change.

Sep. 22, 2023



By Kelley R. Taylor, Kiplinger Consumer News Service (TNS)

IRS audits raise anxiety for many taxpayers. What can be even more frustrating is when those examinations seem unevenly targeted to taxpayers with lower incomes. That's been the case with the earned income tax credit (EITC), which has been the subject of recent controversy. (A study released earlier this year found that [the IRS audits Black taxpayers at about three to five times higher rates than the agency audits other taxpayers.](#))

But beyond the EITC, there have been concerns over the years whether the IRS focuses enough on higher earners and has the resources to effectively audit complex partnerships and large corporations. Now, in a [Sept. 18 letter](#) to Senate Finance Committee Chair Ron Wyden (D-OR), IRS Commissioner Danny Werfel is pledging to reduce the agency's focus on EITC and similar audits.



Danny Werfel

“In fiscal year (FY) 2024, we will be substantially reducing the number of correspondence audits focused specifically on certain refundable credits,” Werfel wrote. “Over-reliance on audits to resolve basic errors can lead to fewer taxpayers receiving credits and deductions for which they are eligible and thus decrease accuracy in tax administration.”

The move is part of what the agency describes as a “rebalancing effort” to focus tax enforcement and compliance efforts on wealthier taxpayers and large corporations. That rebalancing stems partly from billions of dollars in funding for the agency under the Inflation Reduction Act.

Fewer IRS audits involving credits for taxpayers with lower incomes?

The EITC, in particular, is claimed on many federal income tax returns. (The [IRS reports](#) that as of December 2022, around 31 million workers and families received about \$64 billion in earned income credits.)

The credit, designed to benefit workers with lower incomes, can lower tax liability for eligible households or result in a cash-back refund. Last year, the average EITC nationwide was just over \$2,000. For the 2023 tax year (returns normally filed in 2024), the maximum EITC amount, which depends on several factors, is \$7,430.

The Stanford Institute for Economic Policy [study](#), released earlier this year, found that the EITC was the main source of the racial disparity in IRS audit rates. It should also be noted that:

- Black taxpayers aren’t more likely to claim the EITC than non-Blacks (e.g., Hispanics and Whites).

- The IRS says it doesn't have information about taxpayer race when it identifies tax returns for audit.
- The audit disparity was considered significant and likely attributable to IRS audit algorithms targeting the refundable tax credit.

[Note: The study findings were based on data from 148 million tax returns and 780,000 IRS audits. The study was produced with input from researchers from other universities and the U.S. Treasury Department.]

Werfel says taxpayers can expect to see fewer correspondence audits (simple reviews of tax returns often conducted via mail) involving the following tax credits for the 2024 filing season:

- Earned Income Tax Credit (EITC)
- American Opportunity Tax credit
- Health Insurance Premium Tax Credit
- Additional Child Tax Credit

The agency has already implemented some changes and will, according to Werfel, conduct future pilots for the EITC audit selection process. The IRS plans to monitor and publicly share the findings.

Wealthy taxpayers, millionaire evaders, and large corporations

In the meantime, the IRS continues to ramp up enforcement and compliance efforts involving wealthier taxpayers, millionaire tax evaders, large corporations, and complex partnerships. The agency is also cracking down on “unscrupulous promoters” and scams that harm taxpayers and honest business owners.

For example, the agency recently announced an [immediate moratorium on processing new employee retention credit claims](#). The IRS is also looking to [hire 3,700 new revenue agents](#) to focus on complex audits.

All contents copyright 2023 The Kiplinger Washington Editors Inc. Distributed by Tribune Content Agency LLC.

CPAPA is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2023 Firmworks, LLC. All rights reserved