CPA Practice Advisor

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in returning to business as usual.

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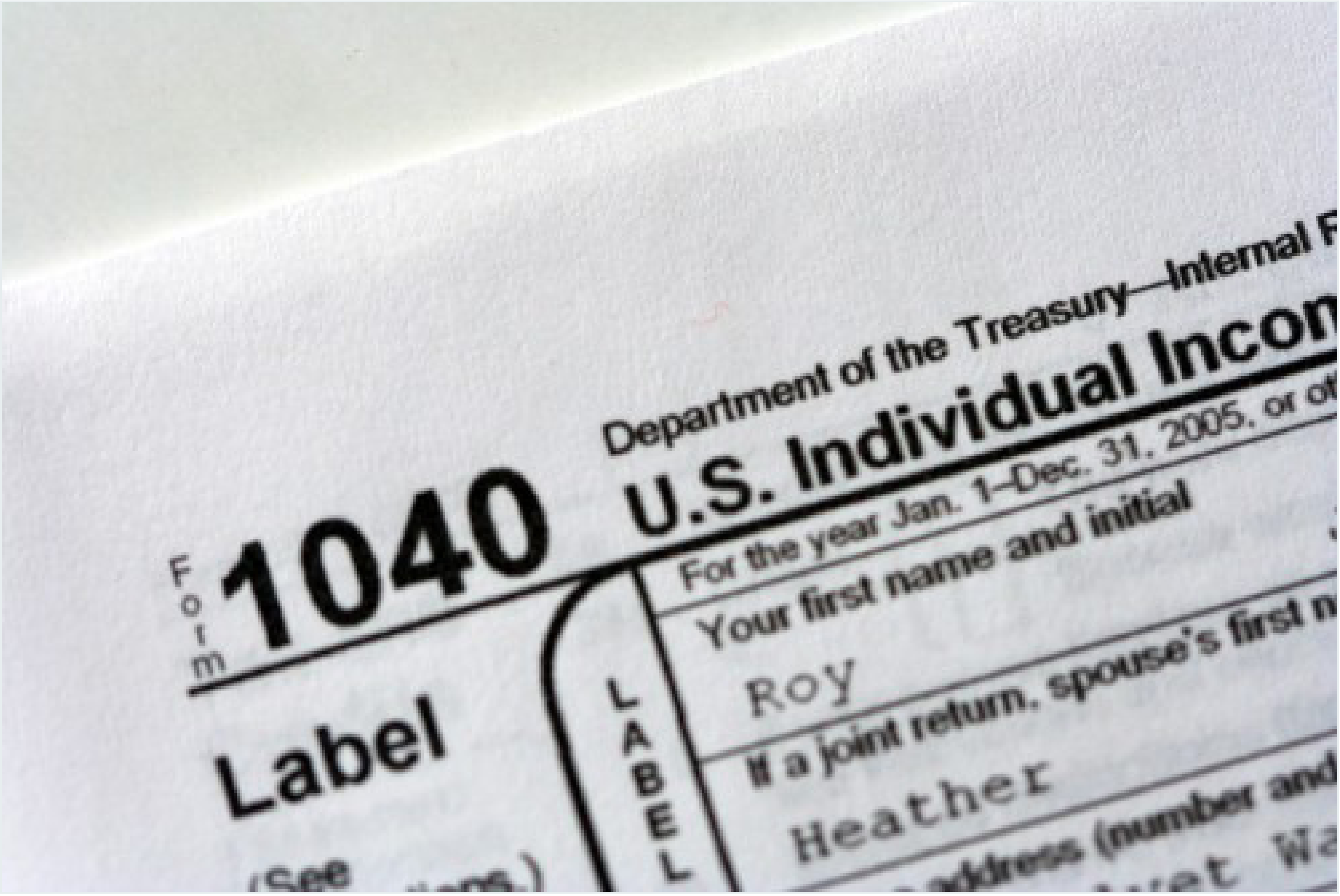

Few agencies are as perpetually tasked to "do more with less" than the Internal Revenue Service (IRS). Despite chronic and pandemic-specific challenges however, the IRS is making strides in returning to business as usual.

According to the recently released National Taxpayer Advocate *Annual Report to Congress*, "...the magnitude of successes exceeded the areas of weakness in 2023, and most metrics showed significant improvement from the depths of the [COVID-19] pandemic." Progress was cited in eliminating most of its tax return backlog, more on-

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impacting tax agency operations and the ability to meet expectations for taxpayer services delivery.

Explosion in data sharing

Tax agencies worldwide recognize the untapped potential of integrating new data sources into their processes. New regulations like the EU's DAC7 and DAC8 directives offer significant new data sources. Meanwhile, government agencies in various countries continue to establish data analytics centers, while embracing the opportunity represented by the analysis of open source information.

Beyond the prolific amount collected, there are duplicate taxpayer records, cross-border transactions, protection laws and everchanging regulations. But with a new era of data sharing between tax administration and other parts of government, uniting data and analytics silos across departments and divisions better empowers agencies to crack down on tax evasion on a global scale.

Use of AI and generative AI against tax agencies

As AI, particularly GenAI, becomes more prevalent, the technology has spurred excitement — sometimes among the wrong crowd.

Fraudsters and tax evaders will use GenAI techniques to generate synthetic identities, create false tax submissions or even create fake documentation for tax credits. Organizations must fight fire with fire. Powerful AI and analytics can augment the talent of tax professionals, help agencies identify questionable documents at the point of submission, focus their investigation efforts and improve compliance.

Already, the IRS is tapping AI to investigate tax evasion perpetrated by hedge funds,

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compliance further upstream for years. What has held them back so far? Siloed and overly complex processes confuse honest taxpayers and give fraudsters opportunities to hide.

By adopting real-time risk scoring at the point of submission, organizations can make the "get tax right the first time" concept a reality. Agencies can provide real-time information to tax professionals and the taxpayer at the point of tax filing – based on analysis of historical returns, audits and third-party data. Based on the analysis, agencies can educate and respond directly to the individual. They can empower taxpayer compliance, generate risk scores on a transactional level and provide next-best actions.

Crack down on unexplained wealth

With cryptocurrency and cross-border opportunities, tax avoiders have started hiding money with increasing sophistication, and authorities need help keeping pace.

However, the resulting unexplained wealth offers tangible clues that something is amiss, which can help tax agencies target their resources to claw some of the advantages back. The key to success is connecting relevant data on obtained assets and income from multiple sources – and doing so with precision.

Advanced analytics can help agencies create connections between different records from various sources and handle large volumes of data. Tax agencies can identify relationships among taxpayers and business entities and detect suspicious cross-border movement of monies.

Sharing innovation with developing countries

Governments worldwide are joining forces to combat money laundering and tax

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sharing of best practices.

Facing the skills shortage

Demographic shifts, budget limitations and competition from the private sector are influencing the availability of talent, leading to unfilled vacancies and the loss of institutional knowledge.

Congressional testimony last year by IRS Commissioner Danny Werfel addressed how Inflation Reduction Act-funded hiring efforts – adding 5,000 employees – benefited the taxpayer experience. One example is a dramatic jump from the IRS' ability to answer taxpayer questions from 15% in 2022 to 85% in 2023.

The story doesn't end with adding manpower, however. Hiring, training and retaining are the keys to overcoming staffing challenges. Tax agencies must ensure they are investing in the right skills for the future – and a new approach to workforce planning, readiness and retention. Better training can lead to increased employee satisfaction, reduced turnover and better services to citizens.

Agencies can make the best possible use of their most valuable employees by streamlining processes. An analytics platform can help everyone work together, regardless of skill set. No-code/low-code environments integrate data from virtually any source, enabling data governance to track data and lineage. The advantage: a reduced burden on strained administrators.

Gaining citizen trust while embracing modernization

AI offers a compelling opportunity to achieve new levels of transparency and openness. Tax agencies have traditionally been cautious about adopting cutting-edge technologies until they have been tried and tested in other sectors. The tipping point for technologies such as AI has been reached.

Efficient tax agencies can demonstrate the benefit of these new technology-driven

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Future, meet present

With fraudsters already aggressively seizing the power of AI for nefarious purposes, tax agencies are fighting battles that seemed like distant threats merely two years ago. They have to do this while still fulfilling their basic mission for citizens. Massive amounts of data still have to be crunched simply to make sure money goes where it's supposed to, when it's supposed to.

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IRS • Taxes

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