Highlights

- Bipartisan Tax Bill Stalls in Senate
- Overall Improvement in IRS Taxpayer Services
- Increased Efforts in Taxpayer Compliance Nets Results

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Tax Briefing | 2024 Post-Filing Season Update

The 2024 Filing Season Ends Without Passage Of Bipartisan Tax Bill

The 2024 tax season will likely be remembered for something that did not happen rather than a significant action taken by the government – the failure to pass The Tax Relief for American Families and Workers Act of 2024.

Despite this, there were some positives to report, with the Internal Revenue Service reporting improved metrics related to the use of supplemental funding from the Inflation Reduction Act, as well the agency's launch of Direct File and other typical changes spanning the tax season, although even those were generally light this season as the IRS anticipated passage of the bill (H.R. 7024), as many of its provisions were set to go into effect retroactively for the 2023 tax year.

After a strong bipartisan vote of 357-70 in favor of passage in the House of Representatives, the bill headed over to the Senate where it promptly stalled. No votes have been taken on the measure to date and as the United States moves closer to Election Day in November, the chances of it ultimately reaching the President's desk for signature grow increasingly slim.

As passed in the House, the bill provides for an increase in the child tax credit, a delay in the requirement to deduct research and experimentation expenditures over a five-year period, an extension of 100-percent bonus depreciation through 2025, and an increase to the Code Sec. 179 deduction limitation, among other business-friendly provisions. The bill would also extend tax treaty-like benefits to Taiwan, and extend some disaster-related tax relief. The provisions were to be paid for by changes to the COVID-era employee retention tax credit, including an acceleration of the termination of

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the period for making new claims, and increasing penalties on erroneous or fraudulent credit claims.

Although no new bill language has emerged from the Senate, it already appears as though it would undergo some changes should it ever make it to the floor for a vote. Senate Finance Committee Chairman Ron Wyden (D-Ore.) already said he was willing to make compromises to the child tax credit provisions, a key issue holding up the bill, to help get the bill across the finish line, although making any changes would require an additional vote in House, which could further complicate final passage. However, as mentioned above, the chances of this bill passing at all are remote, especially considering the retroactive effect of many of its provisions now that the filing season has come to a close for many impacted taxpayers.

INFLATION REDUCTION ACT IMPACTS

IRS Improvements

One of the subjects that will be talked about in the wake of the 2024 tax filing season is the effects the supplemental funding from the Inflation Reduction Act of 2022 (IRA) had on the service side of the IRS.

"We still have much more work to do, both to finish the 2024 tax season as well as put in place continued improvements made possible by the Inflation Reduction Act funding," IRS Commissioner Daniel Werfel said in a statement. "But this filing season marks another important chapter where we've improved service for taxpayers, continuing an accelerating trend in the story of transforming the IRS."

Among the improvements stemming from the IRA supplemental funding are:

- Improved phone service through the addition of 5,000 new telephone customer service personnel;
- A 16.8 percent increase in calls handled by operators;
- A decrease in call wait times;
- Increased callback options so callers do not have to wait on hold;
- Increased in-person help with an increase of 37 percent in people served at Taxpayer Assistant Centers and more help at Volunteer Income Tax Assistance and Tax Counseling for the Elderly sites;
- More use of free filing options; and
- Higher use of IRS.gov.

Direct File

Perhaps the biggest action taken by the IRS with the IRA supplemental funding was the launch of the Direct File pilot. The service, in its pilot form, allows taxpayers across 12 states who have basic tax returns to use the IRS website to prepare and file their taxes, similar to how they would use a third-party site. In four of the states, there was also an option to have the information flow through to the state return.

As the pilot wrapped up on April 15, 2024, the agency announced that it met a previously unannounced goal of having at least 100,000 taxpayers successfully filing their returns through the Direct File program, with more than half of those filings coming in the final week of the filing season.

Werfel stated during a March 11, 2024, press conference that the agency has "been fortunate that we haven't thus far seen any major issues," adding that the IRS is "getting a lot of positive feedback on it from the thousands of taxpayers that have used it during the testing phase."

Despite the positive commentary from the IRS, the U.S. Government Accountability Office is a bit more skeptical, noting in a report published April 9, 2024, that it "found IRS has not produced comprehensive cost and benefit estimates needed to inform decision-making post pilot. Collecting relevant data during the pilot would allow IRS to improve its estimates."

Werfel said during that press conference that the decision to move forward with Direct File beyond the pilot has not yet been made.

Compliance

Another outcome from the IRA supplemental funding is the increased efforts in compliance. As tax season was kicking off, there was an increased emphasis on millionaires who may be evading taxes by Internal Revenue Service compliance staff, resulting in collection of $482 million to date, Werfel reported.

During a January 11, 2024, conference call, Werfel noted that those taxes have been collected from about 1,600 millionaires and there is "more work to come" to ensure the wealthy are compliant with their taxes. "These efforts … show the IRS continues to be focused on going after the wealthiest people in organizations who are evading some of the basic tax responsibilities," Werfel said.

One example of the increased enforcement that Werfel highlighted was the agency targeting those who may be trying to evade paying the self-employment tax using an exemption that applies specifically to limited partners, even though they don't qualify as such.

"Our work in this area using new IRA funding has helped us increase our efforts, which now includes more than 80 audits," he said. Werfel also noted that the IRS's efforts to examine partnerships more closely is ongoing, with 76 of the largest U.S. partnerships under audit. These partnerships, on average, have more than $10 billion in assets.

The compliance work will be bolstered now that the agency has a confirmed chief counsel on staff. The Senate voted 56-41 on February 29, 2024, to approve the nomination of Marjorie Rollinson as chief counsel, a position that has been vacant since the beginning of the Biden administration.

INDIVIDUAL DEVELOPMENTS

Notice Simplification

The Internal Revenue Service has reviewed, redesigned, and deployed 31 notices for the 2024 tax filing season in an effort to simplify the notices and improve their clarity. This is a part of a broader effort to simplify up to 90 percent of the notices the agency sends out to taxpayers on an annual basis.

Included in the first wave of redesigned notices are notices to taxpayers who served in combat that may be eligible for tax deferment, notices that remind a taxpayer that they may have an unfiled return, and notices that remind a taxpayer about their balance due and where they can go for assistance.

"The IRS has a large number of these letters as well as other standard correspondence," Werfel said during a January 23, 2024, teleconference with reporters. "And as we've heard from tax professionals as well as taxpayers, these notices can be confusing. They cover complex topics. They can include a lot of legal language, and with our current systems and machines, the letters can be a mishmash of looks that do not always have a consistent familiar look you might get from a credit card company or a bank."

Werfel said that these issues made it clear to agency management that they need to redesign the notices to utilize clearer, plain language that a taxpayer can act upon without potentially needing to consult with a tax professional to help understand the information being sent and potentially requested. About 20 million of these 31 notices were sent to taxpayers in calendar year 2022, he said.

Digital Assets

The IRS continued to keep a close eye on digital assets, which included an updated question now on Forms 1040, 1040-SR, and 1040-NR, as well as additional forms like 1041, 1065, 1120, and 1120-S. Taxpayers filing these forms must respond to the digital asset question with either 'Yes' or 'No', regardless of transaction involvement in 2023.

In addition, taxpayers must disclose all income from digital asset transactions, utilizing relevant forms such as Form 8949, Schedule D, Form 709, and Schedule C for reporting wages or independent contractor earnings received in digital assets.

IRS Targets Nonfilers

The IRS launched a new initiative to improve tax compliance among high-income taxpayers who have not filed federal income tax returns since 2017. This effort, funded by the Inflation Reduction Act, involves sending out IRS compliance letters to over 125,000 cases where tax returns have not been filed since 2017. These mailings include more than 25,000 to individuals with incomes exceeding $1 million and over 100,000 to those with incomes ranging between $400,000 and $1 million for the tax years 2017 to 2021. The IRS began mailing these compliance alerts, formally known as the CP59 Notice, in March. Recipients of these letters should act promptly to prevent further notices, increased penalties, and stronger enforcement actions. Consulting a tax professional can help them swiftly file late tax returns and settle outstanding taxes, interest, and penalties. The failure-to-file penalty is 5 percent per month, capped at 25 percent of the tax owed. Additional resources are available on the IRS website for non-filers.

BUSINESS DEVELOPMENTS

Beneficial Ownership Information Reporting

An ongoing issue through the tax season that will extend well beyond it is the reporting of beneficial ownership information.

The Financial Crimes Enforcement Network launched the BOI registry on the first of the year and it has been a source of controversy since, particularly based on its potential effects on small businesses, especially for those who might not even be aware that they need to report BOI information.

Treasury officials told Congress they are taking every possible step to make sure the reporting requirements do not present a significant burden to small businesses and are actively engaged in an information campaign to spread the work, though there continue to be calls from professional societies to postpone requirements and penalties for failure to file, especially while legal challenges to the requirements are ongoing.

Business Auditing

An area of focus of the IRS under the Biden administration has been on ensuring wealthy individuals and large corporations pay their fair share of taxes.

As part of that, the IRS began dozens of audits on business aircraft involving personal use. The audits will be focused on large corporations, large partnerships, and other high-income taxpayers, and will scrutinize whether the use of jets is being properly allocated between business and personal reasons.

“During tax season, millions of people are doing the right thing by filing and paying their taxes, and they should have confidence that everyone is also following the law,” said Werfel, “These aircraft audits will help ensure high-income groups aren’t flying under the radar with their tax responsibilities.”

These audits of corporate jet usage are part of the IRS Large Business and International division’s “campaign” program and include issue-focused examinations, taxpayer outreach and education, tax form changes, and a focus on particular issues that present a high risk of noncompliance.

In addition to the work on corporate jets, the IRS has a variety of efforts underway to improve tax compliance in complex, overlooked high-dollar areas where the agency did not have adequate resources prior to Inflation Reduction Act funding.

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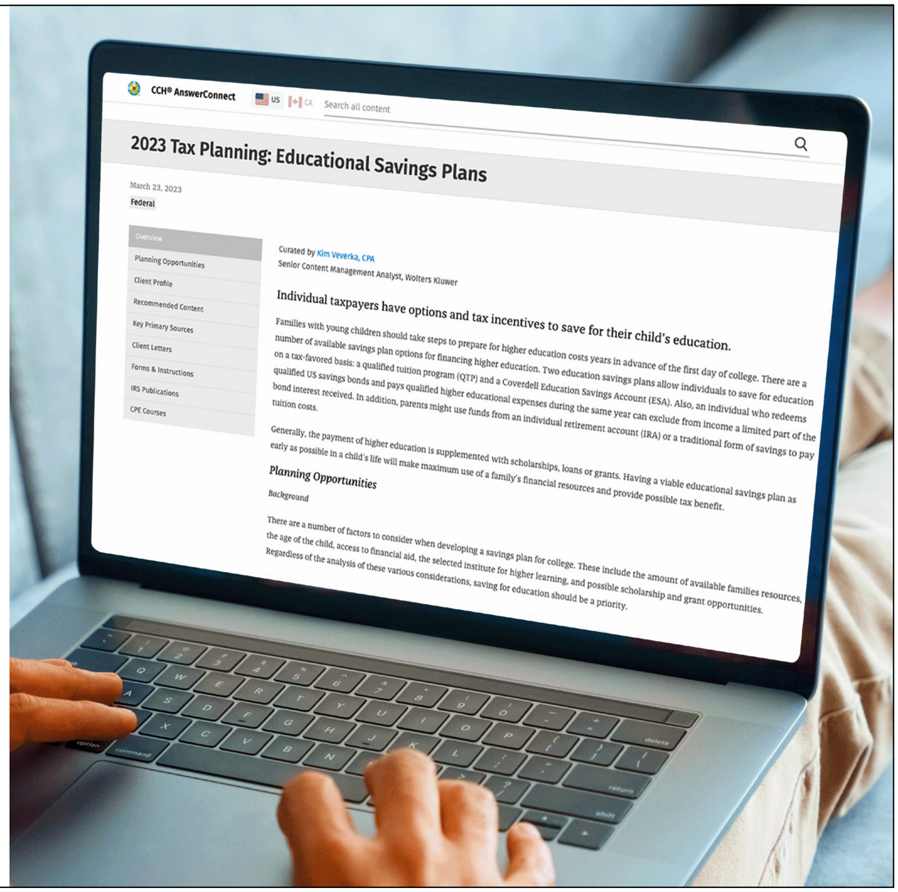

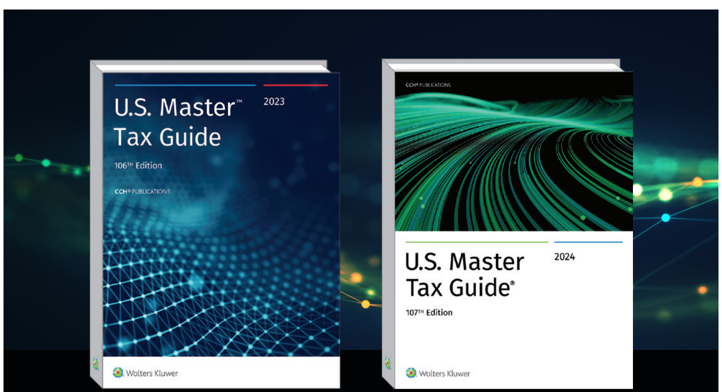

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