

LEGAL UPDATES

PUBLISHED: MAY 24, 2021

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American Families Plan Steps Up IRS Focus on High-Net-Worth Individuals

On May 20, 2021, the Department of the Treasury released the American Families Plan tax compliance agenda, detailing the tax compliance initiatives in President Biden's American Families Plan. The tax compliance agenda is primarily concerned with narrowing the "tax gap" – the approximately \$600 billion annual difference between taxes owed and taxes actually paid. The proposal to do so focuses heavily on high-net-worth individuals.

For high-net-worth individuals, the proposal details the scale and scope of enforcement efforts the Biden administration is proposing in order to identify possible unreported income. Though this is merely a proposal at this stage, it provides insight into where the Biden administration is likely to focus coming tax enforcement efforts.

Key elements of the tax compliance agenda include:

Annual budget increases to the Internal Revenue Service (IRS) of about 10 percent annually, including increasing staffing for enforcement and improving data analytic capabilities.

Requiring financial institutions to provide total account inflow and outflow information to the IRS in order to better target audits.

Improving IRS computer systems to develop "innovative machine learning" aimed at identifying suspect filings.

Regulating paid tax preparers and increase sanctions for preparers who commit or abet evasion.

The tax compliance agenda estimates that an \$80 billion 10-year investment in the IRS could result in an additional \$700 billion in tax revenue over a decade.

The tax compliance agenda further details that the primary focus of enhanced enforcement would be on income subject to little or no information return reporting, including proprietor income, other income, rents and royalties, farm income and Form 4797 income. The report also identifies high-income non-filers as an area of enforcement, and it specifically notes that high-net-worth individuals are expected to bring high return on investment.

What this means to you

It is not clear at this juncture what portions of the tax compliance agenda will be enacted. Most, if not all, measures would require an act of Congress, but many portions could be passed through budget reconciliation. Further, the report notes continued IRS focus on ramping up enforcement against certain high-net-worth individuals, and those efforts are only likely to accelerate. High-net-worth filers would be well advised to be prepared for an increased likelihood of audits in years to come and may consider positioning themselves now in anticipation of increased scrutiny. Husch Blackwell's Tax and Private Wealth groups are available to discuss potential impacts and how clients can ready themselves to weather these changes, and we will keep clients updated on any measures that are enacted.

Contact us

If you have questions or concerns about your tax filings and increased IRS scrutiny, contact Jacque Albus, Robert Romashko or your Husch Blackwell attorney.