



**DEPARTMENT OF THE TREASURY**  
INTERNAL REVENUE SERVICE  
WASHINGTON, DC 20224

**IRS Commissioner Danny Werfel**  
**Prepared Remarks: TACRE Quarterly Meeting**  
**September 15, 2023**

I want to thank the members of the Treasury Advisory Committee on Racial Equity for meeting with me today to discuss important steps the IRS is taking to rebalance our compliance efforts.

The IRS is committed to enforcing tax laws in a manner that is fair, impartial and as accurate as possible. As you know, I committed to investigating the root causes of the audit disparities during my confirmation hearing. Soon after starting at the IRS, I committed to taking substantive action prior to the next filing season. Yesterday, we [released details](#) to Congress on steps we are taking that will allow us to repurpose resources to focus on other work that better aligns with IRS strategic priorities and further our core objectives of equitable and efficient tax administration, while improving payment accuracy. These steps will also make tax administration fairer for all Americans.

Taxpayers need to be able to trust our processes and believe that we are administering the tax code fairly and impartially. This is essential to the IRS achieving its mission. I understand that findings of disparities in audit treatment -- which many advocates and scholars have previously raised concerns about -- have eroded some of the trust placed in our tax system. The imperative is clear: We must tackle this issue of disparity head on, be transparent about our progress, and build a culture and set of practices that routinely test and address enforcement challenges.

Yesterday's release described important actions that we will take to improve accuracy and reduce audit disparities, and I will provide details on those changes in a moment. As part of our work to ensure fairness and accuracy, we are focusing our enforcement efforts on high-dollar areas where taxpayers such as large corporations, complex partnerships and high-wealth individuals fail to pay the taxes they owe.

While we are beginning to make progress, we have more work to do, and I hope TACRE members will serve as a resource as we consider our next steps. I have reviewed the recommendations you have submitted to Secretary Yellen regarding audit disparities. I appreciate the feedback TACRE is providing on this critical issue and look forward to discussing the steps we are taking that are responsive to your recommendations.

**Context**

Today, I want to focus on one of the most important elements of this overall agenda - addressing racial disparities in audits. Before going into more detail about the changes we are making, I want to step back and put this issue into context. As all of you are well aware, recent research using imputed race information estimated that Black taxpayers are audited at three to five times the rate of non-Black taxpayers.<sup>1</sup> These findings are deeply concerning. As soon as I was confirmed as Commissioner, I began meeting with the IRS team that has been studying this issue, as well as the management team that oversees the audit program, to better understand the drivers of this disparity. I want to emphasize that we are continuing our research to further improve our understanding of the ways in which the processes that the IRS uses to assign risk scores to returns claiming the Earned Income Tax Credit (EITC) and exam priorities contribute to this disparity. I am committed to regular evaluation of our audit systems and publicly reporting on our progress to mitigate the risk of disparity, as promised in the Inflation Reduction Act (IRA) Strategic Operating Plan.

### **Recent Progress and Next Steps**

Since I was confirmed as IRS Commissioner, our team of researchers at the agency has continued to evaluate potential contributing factors to racial audit disparities. To achieve transparency and obtain peer input, the research team has been presenting information on the methodology and preliminary findings in public forums. For example, a paper on this work was presented during the recent IRS-Tax Policy Center conference, and the presentation materials are available on IRS.gov.

In our Strategic Operating Plan, we committed to conducting research to understand any potential systemic bias in compliance strategies and treatments. We are working to identify any disparities across dimensions including age, gender, geography, race and ethnicity. We are also continually refining our approaches to compliance and enforcement to improve fairness in tax administration and maintain accountability to taxpayers as informed by our research. We will share our findings on both matters publicly. The ongoing evaluation of our EITC audit selection processes is the topmost priority within this larger body of work and will inform additional, future changes to our processes.

### **Changes for FY 2024**

Starting October 1, the IRS is making changes that will improve exam outcomes and racial equity.

First, we plan to substantially reduce the number of correspondence audits of returns claiming refundable credits, including EITC, in FY 2024. These steps will allow us to

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<sup>1</sup> Elzayn et al (2023). "Measuring and Mitigating Racial Disparities in Tax Audits." Stanford University, SIEPR WP 23-02 (January). The IRS does not collect data on taxpayer race. Elzayn et al (2023) estimated probabilities that filers belong to particular race/ethnicity groups by comparing taxpayers' names and addresses to public data on the racial composition of names and Census Block Groups. These probabilities have been used in retrospective analyses of audit outcomes, to help us understand the drivers of disparity. They have not been and will not be used in the operational selection of individual taxpayers for audit.

repurpose resources to focus on other work that better aligns with the IRS' strategic priorities and further our core objectives of equitable and efficient tax administration, while improving payment accuracy. Moreover, the recent study identifying audit rate disparities demonstrated that the volume of IRS correspondence exams focused on the EITC is a major driver of overall disparity. In advance of the next filing season, we will be finalizing our plans for how we leverage the freed-up compliance resources to support sound tax administration, focus on our top priorities and further promote fairness. I will update you as this planning progresses.

Second, we are implementing an initial round of changes to the EITC audit selection processes that we expect will improve the accuracy of exam outcomes and further reduce disparities. This includes an update to the automated risk scoring process, which we developed between 2020 and 2022. The update changes how the IRS considers information that helps determine who can claim the EITC, while improving accuracy. We are also launching two pilots of alternative approaches to our existing EITC audit selection process during the next filing season. We will publicly report on the results of these pilots and, if this initial round of changes yields the anticipated improvement in fairness and the accuracy of exam outcomes, the alternative approaches for audit selection could be the basis for further changes in a future filing season.

Third, we are devoting more resources to addressing unscrupulous tax return preparers who are misleading their customers into underreporting income or overclaiming credits and deductions. We are leveraging data that identifies tax preparers with questionable practices. Our research suggests that these bad actors disproportionately file tax returns for vulnerable taxpayers, including low-income filers, filers of color, and those with limited English proficiency, which may contribute to higher audit rates for this taxpayer segment. Over time, we believe stepped-up efforts to stop unscrupulous preparers from targeting these groups will lead to higher quality tax preparation and increased return accuracy, thereby reducing the number of individual taxpayers at risk of audit.

Of note, the IRS has already been taking bold steps to address bad actors. Last week, we announced a freeze on processing of claims for the Employee Retention Credit to disrupt opportunistic promoters who are exploiting small businesses through a relentless marketing campaign filled with false promises, which has resulted in a large volume of claims from businesses that don't qualify for the credit. Regarding the EITC and other refundable credits, we will be focused on disrupting promoters or preparers who exploit vulnerable populations. The IRA funding will also allow us to continue our increased focus on reaching underserved communities to provide education and real-time assistance in claiming available credits and incentives. This is critically important given the complexity of eligibility rules for some of these incentives, especially the EITC.

Another way we are working to ensure fairness in the tax system is by improving our ability to meet taxpayers where they are, to ensure they have the options that work best for them for fulfilling their tax obligations. Along those lines, as directed by the Treasury, we are moving to implement a scaled pilot of a free, IRS-run direct filing option for

individual income tax returns in the 2024 filing season. More details will be available soon. We are also developing approaches to alert taxpayers promptly to potential issues on their returns, such as those related to refundable tax credits, to encourage self-correction instead of an audit, as outlined in the Strategic Operating Plan.

### **Concluding Remarks**

I have laid out for you a comprehensive strategy that includes immediate changes to reduce correspondence exams of refundable tax credits, test new selection processes, address challenges with bad actors, and support tax filers in obtaining the tax credits for which they qualify. These steps will allow us to repurpose resources to focus on other work that better aligns with the IRS strategic priorities and further our core objectives of equitable and efficient tax administration, while improving payment accuracy. It will take time for us to understand the full impact of our strategy, but we are committed to monitoring and sharing our findings. We anticipate it will take several months after the end of the 2024 filing season to determine the impact of these changes.

Along with the changes we are implementing for FY 2024 that will improve the accuracy of exam outcomes and racial equity, we will continue to evaluate ways to improve our audit program. Based on what we find, the IRS will take further steps to advance our commitment to fair and equitable tax administration. I will make the same commitment to you that we have made in our Strategic Operating Plan -- to continuously examine our systems to understand any potential bias in compliance strategies and treatments and to publicly share the findings of that analysis.

Again, I deeply appreciate the support TACRE is providing on this critical issue. I look forward to continuing to work with you to make additional progress in ensuring that all our enforcement activities are conducted in a fair and impartial manner, as well as other issues I did not have time to cover today, but that are of great importance to both the IRS and this committee. Thank you.