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Here's the Tax Beat broadcast for March 19

Subject Line: Wanted: Dead or Alive

It's no secret Uncle Sam has been living above his means. He hasn't balanced his budget since 2001. He put trillions on his American Express card to pay for Covid relief. And now, as he struggles to extend the Tax Cuts and Jobs Act of 2017 later this year, he's fighting to flesh out a budget resolution that authorizes $86 *trillion* in spending through 2034. If he was your real uncle, you might be googling "Debtors Anonymous" meetings in your neighborhood.

The new administration has chosen the IRS, among other agencies, for spending cuts. They've already laid off 7,000 out of 102,000 workers and have proposed slashing total workforce by as much as 50% by the end of the year. Time will tell how big a wrench the downsizing throws into this year's tax season, although so far, the Service appears to be handling the challenge better than expected.

Here's the problem. The IRS is one of the few parts of our government that actually *makes* money. This is especially true for the hated enforcement divisions. The IRS estimates that every dollar of enforcement spending can result in five to nine dollars of revenue. If your investment advisor told you every dollar you invest in a particular asset will return five to nine dollars over time, you'd mortgage your house to stuff as much money into it as you could.

So here's a modest proposal to shrink the budget deficit, cut the federal payroll, *and* reward the hardest-working people in IRS enforcement. Why not give IRS enforcement staffers a *commission* on every tax dollar they raise through their activity? What could possibly go wrong?

For starters, it would reduce the need for fixed salaries. Right now, new auditors typically start at around $52,000 per year. Perhaps we could replace that with a small stipend, just to keep food on the table, while they ramp up their career. But it would significantly reduce the government's risks once those officials transition to full commission status. And it would quickly weed out weak producers who realize they're not cut out for pay-for-performance comp.

Turning auditors into bounty hunters might also keep the talented ones around longer. Senior revenue agents' salaries typically top out around $120,000. That's decent coin, to be sure. But it's not nearly as much as they might make by crossing over to the dark side and representing taxpayers at law firms or accounting firms. Ambitious auditors who know they can make high six-figure or even seven-figure incomes might prefer to feel patriotic and hone their skills without taking their specialized knowledge to the private sector.

This is especially true for the rockstars of the “Wealth Squad” targeting ultrawealthy filers (and non-filers) through mazes of partnerships and LLCs. The IRS estimates that the top 1% of filers fail to report 20% of their income and escape $175 billion in tax every year. We’re obviously not solving that problem now – so why not give capitalism a try?

Of course, we’d need guardrails to ensure auditors don’t abuse their new opportunity. Paying commissions raises obvious conflicts of interest. It could encourage them to take overly aggressive and legally questionable positions to take more home themselves. It would erode trust in the system’s fairness. It would encourage auditors to focus on cases with the biggest and quickest personal payouts. It could even lead to crooked bargains with individual taxpayers, such as negotiating quick adjustments where both parties benefit in order to avoid drawn out litigation.

On second thought, maybe turning auditors into hired guns isn’t such a good idea. Fortunately, we’re here to help create the most tax-efficient structure no matter how the IRS pays their muscle. Keep that in mind this tax season and let us know how we can do even better!

Kevin