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The IRS Is Coming

The Inflation Reduction Act, which became law earlier this year, includes an additional \$80 billion in funding for the Internal Revenue Service (the “IRS”) over the next 10 years. More than half of that funding amount is targeted for tax enforcement and hiring new agents and auditors. Working with qualified tax counsel is therefore more important now than ever.

The IRS Commissioner has been directed to use this additional funding to conduct enforcement actions focused on high-end noncompliance. In its 2021 funding plan, the Treasury Department proposed hiring up to 87,000 new full-time employees, which means that high-net-worth individuals, corporations, and complex pass-through entities will likely see increased IRS audit activity. IRS compliance examinations of qualified plans and nonqualified deferred compensation plans are also likely to increase, continuing the upward trend in recent years.

One way to avoid an audit is to review plan documents and operational procedures and self-correct any identified errors before being contacted by the IRS. The penalties imposed for errors found during an IRS audit are many times higher than those imposed in the self-correction process. However, even if an employer receives an audit notice, a full scope examination may be avoided through the IRS’s pilot audit program. First announced in June 2022, the program gives plan sponsors a 90-day window to review their plan’s document and operations and correct any errors found through the Voluntary Correction Program within the IRS’s Employee Plans Compliance Resolution System. Further details about the pilot audit program can be found in the IRS [announcement](#) or in Kutak Rock’s associated client alert (available [here](#)).

If you have questions about IRS audits or compliance examinations, have received an audit letter, or need assistance identifying or correcting any plan errors, please reach out to a member of the Kutak Rock [Employee Benefits and Executive Compensation practice group](#).

