

## Tax Notes

# IRS Wealth Squad Announces New Audit Campaign for High-Net-Worth Taxpayers

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With the IRS moratorium on new audits set to expire on July 15, the IRS Large Business and International (LB&I) Division Commissioner, Douglas O'Donnell, announced the first significant initiative after the moratorium: examinations of several hundred high-net-worth individuals, with a focus on their ownership of partnerships, trusts and other pass-through entities, as well as their involvement with their own private foundations and international holdings.

The IRS has not identified what it considers "high-net-worth" for purposes of the campaign; however, if a taxpayer's return includes pass-through and international activities, they should take notice and have proper documentation available should they be selected for examination.

### Background

Often referred to as the "Wealth Squad," the IRS Global High Wealth Industry Group maintains a dedicated team of experienced tax examiners whose primary focus is on high-income and high-wealth entities. A typical Wealth Squad examination takes an all-inclusive approach in order to analyze the taxpayer's complete financial picture and the enterprises that they control, which goes beyond the high-income taxpayer's Form 1040.

### Areas of Focus

It appears there will be several areas of focus of the upcoming audits:

- **Partnerships and Other Pass-Through Activities** – The Commissioner, when announcing the program, said that exams will review pass-through structures, such as partnerships, S corporations and disregarded entities. This effort will highlight the impact of the partnership audit rules enacted in 2015, which make it easier for the IRS to collect tax from partnerships themselves on audits. (See [New IRS Partnership Audit Rules to Take Effect in 2018 – Are You Prepared?](#) for a discussion of these rules.)
- **Private Foundations** – This was another area of focus made explicit in the announcement. For a discussion focused on the campaign's implications for private foundations, click [here](#).
- **International Tax Issues** – Two consistent emphases of IRS audits over the last decade are likely to be at play in these audits. The IRS has continuously emphasized proper reporting of offshore bank accounts, assets, and investments on the Report of Foreign Bank and Financial Accounts (FBAR) and Form 8938 on tax returns. While compliance has likely improved over the last decade, it continues to be a focus. In addition, the changes in the taxation of international investments as part of the 2017 Tax Cuts and Jobs Act (TCJA) were significant. In particular, the IRS has concerns about compliance with the Section 965 transition tax in 2017 and 2018, and the applicability of the minimum tax on CFC earnings (Global Intangible Low-Taxed Income, or GILTI) in 2018 and beyond.

Taxpayers may want to confirm their compliance with these new rules and be prepared to explain any planning undertaken relating to the TCJA changes. Note that the IRS still maintains Voluntary

Disclosure programs relating to foreign reporting compliance, so if a self-review yields issues to fix, there are options to correct prior returns while mitigating penalties. Penalties for lack of filing certain foreign forms can be excessive.

## Orderly Documentation

While inquiries made by representatives from the IRS can be quite burdensome, they should be manageable if appropriate consideration to tax positions has been given and documentation has been maintained. We recommend that taxpayers organize and summarize their global holdings in an orderly manner that can be easily understood. Putting an examining agent at ease at the start of tax audit is usually the key to success.

If a representative from the IRS contacts you, don't panic. Contact your CPA and/or your tax attorney. All communications with the IRS should go through these representatives.

## Contact Us

PKF O'Connor Davies has many International Tax, Family Office and Private Foundation Experts to guide you through this process. We welcome the opportunity to answer any questions you may have related to this topic.

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