

GAO Highlights

Highlights of [GAO-23-105843](#), a report to the Ranking Member, Committee on the Judiciary, U.S. Senate

Why GAO Did This Study

Abusive tax schemes threaten our tax system's integrity and contribute to the tax gap—the difference between taxes owed and paid. Often, abusive tax schemes are marketed by promoters and include complex, multi-layer transactions to attempt to conceal the true nature and ownership of the taxable income or assets. To address abusive tax schemes and their promoters, IRS created the Office of Promoter Investigations in 2021.

GAO was asked to review IRS actions to address abusive tax schemes and those who promote and enable them. This report (1) describes how IRS conducts promoter investigations and presents summary data on these investigations; (2) evaluates how IRS educates taxpayers about referring information on promoters to IRS; and (3) evaluates to what extent IRS's reorganization plan for promoter investigations was consistent with key practices and the extent to which IRS is prepared to evaluate the performance of its new office.

What GAO Recommends

GAO recommends that IRS (1) amend the Dirty Dozen list publication to tell taxpayers how to refer information on promoters to IRS; and (2) finalize outcome-oriented goals and performance measures for the Office of Promoter Investigations. IRS agreed with the recommendations.

View [GAO-23-105843](#). For more information, contact James R. McTigue, Jr, (202) 512-6806 or McTigueJ@gao.gov

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ABUSIVE TAX SCHEMES

Additional Steps Could Further IRS Efforts to Detect and Deter Promoters

What GAO Found

The Internal Revenue Service (IRS) has taken steps to identify and stop promoters who arrange and market abusive tax schemes. Such schemes involve various kinds of arrangements designed to circumvent tax laws or evade taxes. IRS's investigations into promoters vary in complexity and may span across different organizational units within IRS, as shown in the figure below. In fiscal years 2021 and 2022, IRS conducted hundreds of investigations that resulted in tens of millions of dollars in penalties assessed.

Principal IRS Organizational Units Involved in Abusive Tax Scheme Promoter Investigations



Small Business/ Self-Employed

Audits small businesses and certain self-employed individuals.

Operates the new agency-wide Office of Promoter Investigations, which includes the Lead Development Center to receive and develop leads from various internal and external sources.



Large Business and International

Audits large businesses, international taxpayers, and high-wealth individuals.

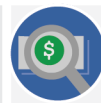
Reviews taxpayer and material advisor disclosures of reportable transactions.



Tax Exempt and Government Entities

Audits tax-exempt organizations such as charities; employee benefit plans such as retirement accounts; and state, local, and tribal governments.

Reviews tax-exempt entities' disclosures of certain tax shelter transactions.



Criminal Investigation

Investigates tax crimes involving violations of the Internal Revenue Code, the Bank Secrecy Act, and various other statutes.

Recommends cases for criminal prosecution to the Department of Justice and U.S. attorneys.

Source: GAO analysis of Internal Revenue Service (IRS) documents. | GAO-23-105843

Currently, IRS is aware of over 40 types of abusive tax schemes involving promoters. One method IRS uses to identify these promoters is information referrals from the public. GAO found that the public can refer information to IRS on a number of forms, few of which can be submitted online. GAO previously recommended that IRS take steps to improve its referral programs by developing a consolidated, online referral submission tool.

Additionally, one of IRS's key public communication tools for abusive tax schemes, its annual Dirty Dozen list, does not include information on how to report promoters of suspected abusive tax schemes. Adding instructions to the Dirty Dozen list about how to submit information on promoters may allow IRS to better leverage information from the public and increase its ability to identify and stop promoters of abusive tax schemes.

IRS created the Office of Promoter Investigations in 2021 to coordinate IRS's response to promoters of abusive tax schemes. The office works to design, develop, and deliver the major activities that help detect and deter abusive tax schemes and their promoters. Although the office has developed strategic goals to fulfil its mission, it has not yet finalized and communicated outcome-oriented performance goals and measures within IRS. Finalizing outcome-oriented performance goals and measures will allow the Office of Promoter Investigations to better evaluate its efficacy and ensure it is meeting its mission.