

# The IRS's Use of Data and Artificial Intelligence in Audits, Collection and Criminal Cases

Eric L. Green, Esq.  
Damon Rowe, Esq.

**TRN**  
TAX REP NETWORK



# Speakers



Eric Green  
egreen@gs-lawfirm.com



Damon Rowe  
drowe@meadowscollier.com



# Continuing Education

- ▶ 4 attendance checks that pop-up
- ▶ You must do at least 3
- ▶ Look for an email to claim your certificate
- ▶ Any issues, email us at [team@taxrepllc.com](mailto:team@taxrepllc.com)

# Are you joining us?

- ▶ 11<sup>th</sup> Annual New England IRS Rep Conference
- ▶ November 7<sup>th</sup> and 8<sup>th</sup> at Mohegan Sun
- ▶ Join us in-person or via live webcast
- ▶ 11 ce/cpe credits
- ▶ <https://irsrepconference.com>



# Data Analytics vs A.I.

- ▶ Artificial intelligence (AI) refers to the simulation of human intelligence in machines that are programmed to think like humans and mimic their actions. The term may also be applied to any machine that exhibits traits associated with a human mind such as learning and problem-solving.
- ▶ Data Analytics is the science of analyzing raw data in order to make conclusions about that information



# IRS is making enormous use of Data Analytics



- ▶ IRS Collections
- ▶ Payroll Tax Cases
- ▶ Non-Filers
- ▶ Evasion (Liability and Payment)

# Sources of Data

- ▶ FATCA
- ▶ John Doe Summonses
- ▶ Algorithms
- ▶ Interconnected Databases
- ▶ Social Media

IN THE UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF MASSACHUSETTS

IN THE MATTER OF THE )  
TAX LIABILITIES OF: ) Case No. 21mc91201 RGS  
)  
JOHN DOES, United States person(s) who )  
directly or indirectly had authority over any )  
combination of accounts held with Circle )  
Internet Financial, Inc., or its predecessors, )  
subsidiaries, divisions, affiliates, including )  
Poloniex LLC (collectively "Circle"), with )  
at least the equivalent of \$20,000 in value of )  
transactions (regardless of type) in )  
cryptocurrency in any one year, for the period )  
beginning January 1, 2016, through )  
December 31, 2020. )

**ORDER GRANTING UNITED STATES OF AMERICA'S  
PETITION FOR LEAVE TO SERVE JOHN DOE SUMMONS**



# A Word on Social Media

- ▶ Tell your clients to shut up on their social media
- ▶ Deleting the accounts would be even better
- ▶ Client's post everything about their life
- ▶ IRS is reading it
- ▶ Nothing is ever truly gone

# Impact of Data on Collections

- ▶ IRS is comparing 433 CIS Forms submitted with the data collected by FATCA and Virtual Currency John Doe Summonses
- ▶ Failure to disclose can be viewed as either a 7201 Evasion of Payment issue, a 7206 False Document Issue, or conspiracy if the practitioner is aware of it
- ▶ Its on the 433 and the 1040 – so make sure you ask and get an actual response!

In 2022, the number of IRS Collection Cases referred to IRS-CI jumped 42%!



# Protect Yourself

- ▶ Do you have foreign assets?
- ▶ Do you own virtual currency?
- ▶ Automated Organizer by Liscio!



# Payroll Tax Case

- ▶ IRS is utilizing algorithms and data points to identify payroll issues
- ▶ FTD Alert X Coded Pilot - Tests whether accelerating the timing of alerts increases impact and identifies which taxpayers benefit most from alerts
- ▶ EFTPS Early Alerts - near real-time system to identify variances in FTDs that will enable/expand treatment streams
- ▶ Datapoints might create the referral, but do not forget about ....

# Old fashioned sleuthing.....





# Interconnected Databases



- ▶ GAO criticizes IRS re matching K-1 data to 1040s (9/2004)
- ▶ IRS has no issue matching now!
- ▶ Postal Database, DMV records, Information Returns (1099, K-1), real estate listings by license number, owners of entities, real estate previously owned, etc
- ▶ Create some headaches for client

# IRS's Use of Data Continues to Grow

## Data and Analytics

from 2007 to 2017

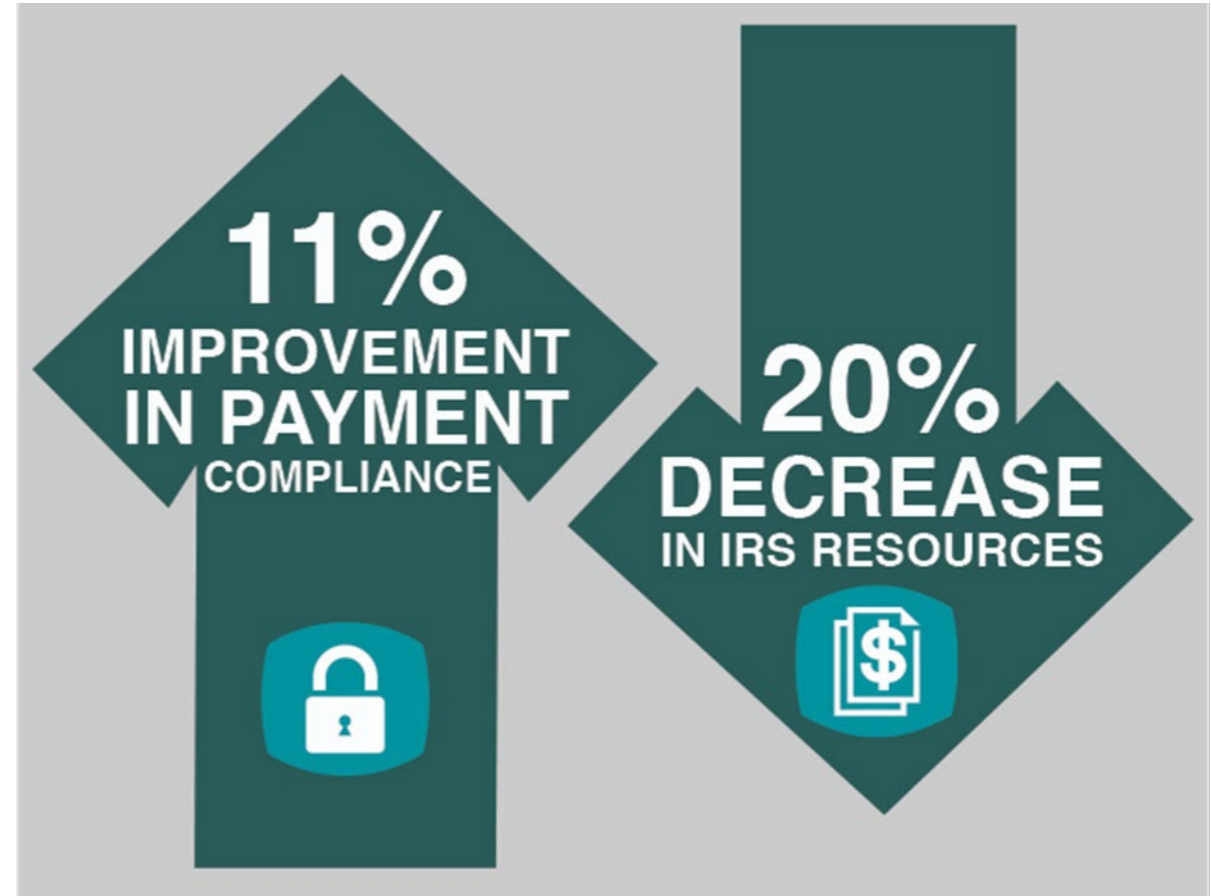
Data Volume  
**increased  
100x**



Number of Users  
**increased  
more than  
23x**



This growth in data has driven innovation in tax administration research, increased the need for third party reporting and promoted better sharing of data across the IRS. New internal and external requests for data analytics to support new legislative mandates have, however, strained the IRS's capacity to support ongoing and new research.



# IRS CI Nationally Coordinated Investigation Unit

- ▶ Formed 5.1.2017 as part of the Future State initiative for IRS-CI
- ▶ Formed strong partnerships within IRS and external stakeholders
- ▶ Uses data driven case selection (with Research, Applied Analytics & Statistics (RAAS))
- ▶ Focuses on developing investigative strategy that addresses nationwide key noncompliance areas and emerging threats
- ▶ Serves as a continual resource to Field Offices
- ▶ Provides training and oversight for large, complex investigations
- ▶ Initiatives: Employment Tax, Virtual Currency, FATCA, National Targeting Center



# Joint Chiefs of Global Tax Enforcement (J5)

- ▶ Australian Criminal Intelligence Commission (ACIC) & Australian Taxation Office (ATO)
- ▶ Canada Revenue Agency (CRA)
- ▶ The Netherlands - Fiscale Inlichtingen- en Opsporingsdienst (FIOD)
- ▶ The United Kingdom - HM Revenue & Customs (HMRC)
- ▶ Internal Revenue Service Criminal Investigation (IRS-CI)
  
- ▶ International tax group dedicated to combatting transnational tax crime, committed to:
  - ❑ Develop shared strategies to gather information and intelligence
  - ❑ Drive strategies and procedures to conduct joint investigations
  - ❑ Collaborate on effective communications
  
- ▶ Four Working Groups:
  - ❑ Professional Enablers (UK)
  - ❑ Cyber/Virtual Currency (US)
  - ❑ Platforms/Data (NL)
  - ❑ Media and Communications (US)

# Joint Chiefs of Global Tax Enforcement (J5)

INTERNATIONAL  
ADVISER

Contact Register

REGIONS INDUSTRY INVESTMENT NRI IA BEST CP  
ADVISER 100 PRACTICE CO

## Five countries unite in global tax evasion crackdown

By Robbie Lawther, 23 Jan 20

Cheats around the world 'should be on notice that their days of non-compliance are over'



## 'Their days are over': Global tax sting implicates hundreds of Aussies

Lucy Dean  
Yahoo Finance AU 23 January 2020

Follow



Australians caught up in global tax sting. Images: Getty

Hundreds of Australians have been caught up in a global tax sting targeting money laundering and tax evasion.

Forbes

Billionaires Innovation Leadership Money Business Small Business Life

EDITORS' PICK | 2,188 views | Jan 23, 2020, 12:32pm EST

## Tax Chiefs Combine Forces In Global Tax Evasion Fight



Kelly Phillips Erb Senior Contributor  
Taxes



GETTY

# Cares Act Fraud

UNITED STATES DISTRICT COURT  
DISTRICT OF MASSACHUSETTS

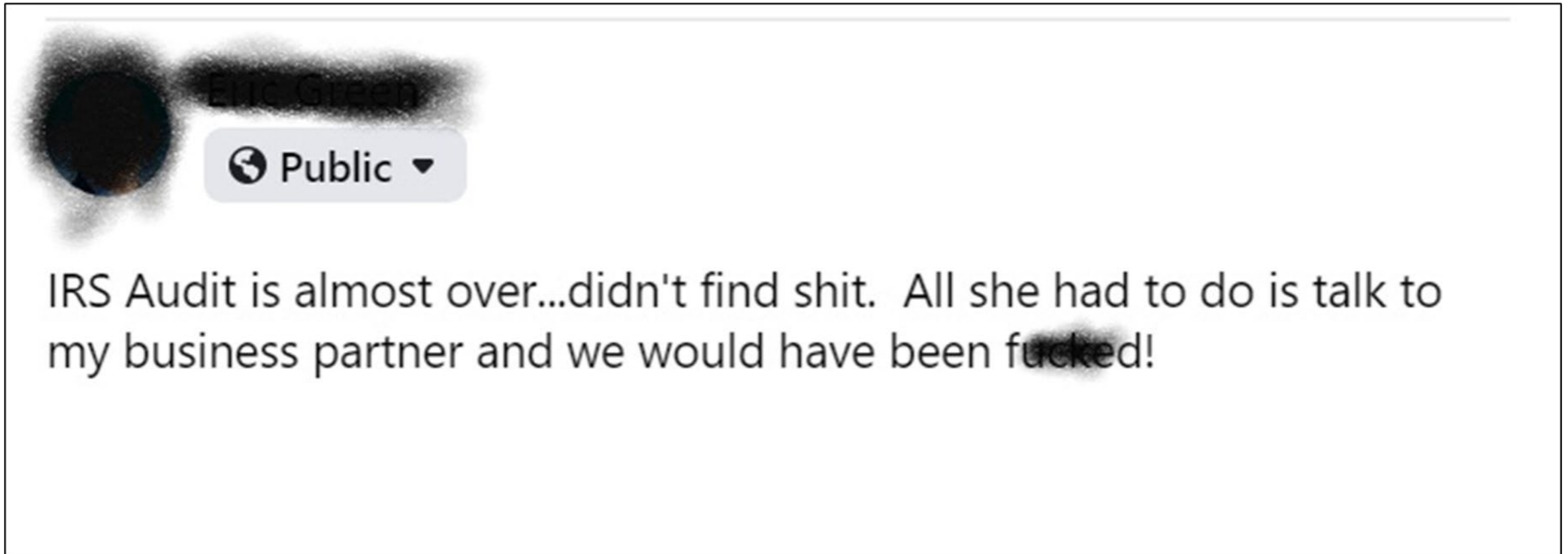
UNITED STATES OF AMERICA )  
 )  
 v. )  
 )  
 ELIJAH BUOI, )  
 )  
 Defendant )

Criminal No. 20cr10130  
Violations:  
Counts One-Four: Wire Fraud  
(18 U.S.C. § 1343)  
Count Five: False Statements to a Financial Institution  
(18 U.S.C. § 1014)  
Wire Fraud Forfeiture Allegation:  
(18 U.S.C. § 981(a)(1)(C) and  
28 U.S.C. § 2461)  
False Statement Forfeiture Allegation:  
(18 U.S.C. § 982(a)(2)(A))

INDICTMENT

**Phoenix man  
charged with fraud  
after seeking over  
\$450,000 in COVID  
relief funds**

And of course, you can't fix stupid...



# Or this kind of stupid...

- ▶ Scott: Eric, we would like to talk with your client about the music collection worth \$250,000. You know the one he didn't list on his 433.
- ▶ Eric: How do you know he has a music collection worth \$250,000?
- ▶ We watched the documentary online where he walked the film crew around his house showing everything and describing what the appraisals came back as.

{Client plead guilty to evasion and sentenced in 2020}



# Demo



# Questions?

