

## **IRS leveraging AI for audits amid layoffs**

The Internal Revenue Service is expected to lean more heavily on artificial intelligence technology as it carries out widespread layoffs.

A [report](#), released last week by the Treasury Inspector General for Tax Administration, found the IRS could leverage its examination results when using AI to select cases for further scrutiny and improve its processes. TIGTA noted that the IRS's current tax return selection models have resulted in a high percentage of examinations that were completed with no change to the tax liability. However, that means resources are wasted on unproductive examinations and compliant taxpayers are unnecessarily burdened. AI models can improve the process the IRS uses to select cases for examination.

TIGTA assessed how effectively the IRS's Large Business and International Division and the IRS Small Business/Self-Employed Division employ AI models to identify returns and issues for examinations.

The IRS started using AI several years ago and revamped how it selects tax returns and identifies issues for examination by using AI models that have been trained on current tax return data instead of relying on past audit results.

The report noted that historical examination results are informative and should be used by the IRS to monitor and improve AI models when available. For instance, the IRS could utilize examination results to improve return classification and return selection AI models that could potentially identify new areas of noncompliance. The IRS should also consider evaluating ensemble machine-learning for improving the accuracy of identifying noncompliant taxpayers and narrowing the tax gap.

"Ensemble learning is an approach that combines multiple machine-learning algorithms to potentially improve performance by making more accurate predictions of which tax returns and/or issues to examine," said the report.