

IRS to Target High Net Worth Individuals, Private Foundations, and Associated Entities Beginning in July 2020

The Internal Revenue Service (IRS) intends to audit hundreds of high net worth individuals and their related entities starting this month. The campaign, announced at a conference by a top IRS division commissioner, will include audits and examinations initiated between July 15 and September 30, 2020. Affected taxpayers should expect audit letters to be mailed this fall.

The following update briefly describes what taxpayers and their associated entities (including private foundations) might expect, and why it may be prudent for high net worth individuals to reach out now to their legal advisors.

What to Expect

The examinations will be conducted by the IRS' [Global High Wealth Industry Group](#). The group, known as the Wealth Squad, is housed in the IRS division that normally oversees tax administration activities for large domestic enterprises and foreign businesses with a U.S. tax reporting presence. These enterprises are generally controlled by individuals with assets or earnings in the ten of millions of dollars.

Based on our experience and the limited guidance, we expect the IRS to take a holistic approach in developing a complete financial picture of high net worth individuals and the entities they control. We also expect a focus on individual income tax returns and entities in which the individual has a controlling interest or other material connection (including private foundations).

Audits of high net worth individuals are typically complex and require a sophisticated understanding of various areas of tax law. To this end, the IRS has indicated that it plans to utilize (1) increased data analytics, (2) improved cooperation among IRS divisions, and (3) the agency's broad legal powers to summon information from individuals, with a side goal of improving the accuracy and effectiveness of future audits.

Targeted Assets

We expect that the IRS will target assets commonly implicated in complex audits. These include, among other things:

- Foreign assets (e.g., bank accounts, foreign trusts, foreign business interests, overseas inheritance)
- Associated entities (e.g., partnerships, trusts, S corporations, C corporations)
- Gifting practices
- Private foundations

Private foundations, for example, may see increased scrutiny of self-dealing transactions, such as making loans to disqualified persons (i.e., various key individuals associated with the foundation management and substantial contributors). In conjunction with the audit initiative, the IRS announced it had identified over 1,000 private

foundations that are linked to or interwoven into global high-wealth enterprises.

Motivating Factors for the IRS

The new IRS initiative appears to be in reaction to various factors including a U.S. Department of the Treasury inspector general's report recommending that the IRS increase its focus on certain high-income taxpayers. The campaign also complements other initiatives at the IRS focused on high-income individuals, and those aimed at better understanding taxpayer behavior to improve future audit practice.

While it is yet to be seen how this new campaign will play out in practice, high net worth individuals, their financial advisors, and any associated entities such as private foundations may benefit from proactively preparing for potential examinations in coming months.

Perkins Coie includes numerous advisors with deep experience helping private foundations, high net worth individuals, and their entities navigate the complex tax rules and IRS enforcement. We are available to discuss any concerns and prepare for potential outreach from the government.

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