

IRS Cites Surge in Tax Fraud, Budget Cuts For 2013 Processing Delays

By Joseph M. Donegan on August 1st, 2012 Posted in Business, Fraud, Taxes

The 2013 tax year may be an arduous one for some business owners and individuals, as a higher incidence of tax fraud and Internal Revenue Service budget cuts may make it more difficult for the agency to process returns.

The Taxpayer Advocate Service – the IRS watchdog department – recently submitted its mid-year report to Congress. The federal tax agency cited tax fraud as one of the most significant issues that it faced in 2012, which may continue to hamper its processing efforts during the 2013 tax year. According to the report, the agency's fraud detection system flagged nearly two million returns as being potentially fraudulent. This is an increase of 72 percent from last year.

The agency said violations of tax law have become more pervasive due to several factors, ranging from a higher incidence of electronic filing, higher dollar amounts for refundable credits relating to individual returns and businesses, and unclear guidelines governing wage and withholding laws.

The IRS has named several priorities for next tax season that it hopes will help it detect and curb fraud and tax evasion. They include revamping systems to manage the impending changes to the tax code that are expected to occur in 2013, beefing up its Offshore Voluntary Disclosure Program to cut down on tax evasion through the use of offshore accounts, and working with other agencies to alleviate compliance challenges.

However, the IRS said eliminating delays and processing backlogs may be more difficult in 2013 due to budget constraints. The IRS petitioned to increase its 2012 budget by \$1 billion, however, it was ultimately reduced by \$11.8 billion. If the same reductions are carried out in future years – especially during periods of tax uncertainty – this may strain IRS processing timelines even more.