

## Six issues targeted in IRS compliance campaigns

In January 2017, the IRS announced a new audit strategy for its Large Business and International (LB&I) Division known as “campaigns.” With the campaigns, LB&I essentially shifts its examinations based on compliance issues that the Division determines present greater levels of compliance risk. By targeting certain issues, the IRS improves its return selection for audit.

Here’s a look at the six issues the IRS is currently targeting:

**1. S corporation built-in gains (BIG) tax.** An S corporation that used to be a C corporation is subject to the BIG tax when the S corporation:

- Has a net unrealized built-in gain on the C corporation’s assets, and
- Sells those assets within five years after the conversion from C corporation to S corporation.

The goal of the campaign is to increase awareness and compliance, so the campaign will consist of issue-based examinations, soft letters (generally, warning letters intended to encourage self-correction and voluntary compliance) and outreach to practitioners.

**2. Offshore Voluntary Disclosure Program (OVDP) compliance.** In the past, the IRS ran several OVDP compliance campaigns that were aimed at getting U.S. taxpayers residing abroad to comply with their U.S. worldwide income and asset reporting obligations. The OVDPs permitted U.S. taxpayers with unreported foreign accounts to avoid criminal charges and pay reduced civil penalties by making a voluntary disclosure to the IRS.

The first OVDP opened on March 26, 2009. The last OVDP closed on September 28, 2018. The LB&I campaign will address tax noncompliance issues related to former OVDP participants’ failure to remain compliant with their foreign income and asset reporting requirements through soft letters and examinations.

**3. Expatriates.** An “exit tax” applies to U.S. citizens and covered expatriates who give up their citizenship on or after June 17, 2008, or long-term U.S. residents who give up their residency status as of that date. The compliance campaign will address the issue through outreach, soft letters and examinations.

**4. High-income nonfilers.** U.S. citizens and resident aliens are taxed on their worldwide income whether they receive a Form W-2 Wage and Tax Statement, a Form 1099 information return or a foreign equivalent. The LB&I campaign will concentrate on bringing into compliance those taxpayers who have not filed tax returns.

**5. Erroneous refundable credits of U.S. territories’ filers.** The IRS has determined that some bona fide residents of U.S. territories are erroneously claiming refundable tax credits on Form 1040. The new campaign will address noncompliance through outreach and traditional examinations.

**6. Deferred compensation for services performed before January 1, 2009.** Generally, Internal Revenue Code Section 457A requires that any compensation deferred under a nonqualified deferred compensation plan be includable in gross income when there’s no substantial risk of forfeiture to the rights to such compensation. The goal of the campaign is to verify taxpayer compliance with the requirements of Sec. 457A through issue-based examinations.

If you believe you or your organization may be affected by any of these issues, consult your tax advisor on how to proceed. •