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## United States Senate

COMMITTEE ON SMALL BUSINESS & ENTREPRENEURSHIP

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SEAN MOORE, DEMOCRATIC STAFF DIRECTOR  
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April 18, 2023

The Honorable Daniel Werfel  
Commissioner  
The Internal Revenue Service  
1111 Constitution Avenue, NW  
Washington, D.C. 20224

Dear Commissioner Werfel,

As Ranking Member of the U.S. Senate Committee on Small Business and Entrepreneurship, I write with strong concern regarding the Internal Revenue Service's (IRS) plan concerning enhanced tax enforcement efforts directed to small businesses detailed in the "Internal Revenue Service Inflation Reduction Act Strategic Operating Plan" released on April 6, 2023.

*The Inflation Reduction Act of 2022* (P.L. 117-169) included approximately \$80 billion over the next ten years to enhance collections efforts toward American taxpayers and increase the IRS workforce to over 105,000 employees by 2025.<sup>1</sup> President Biden has repeatedly stated that these efforts would be directed to "billionaires" and the wealthiest taxpayers. However, the strategic plan states in Part II, Objective 3.5 that the IRS will pursue increased audit rates of any business earning more than \$400,000 to enhance collections efforts toward large corporations and wealthy individuals.<sup>2</sup>

It is not clear by which precedent the IRS determined that a large business is any entity earning more than \$400,000 in revenues. Under this approach, enhanced tax enforcement efforts would sweepingly apply to small businesses across the country. As you may know, the U.S. Small Business Administration's (SBA) small business size standards are typically determined by annual revenues or number of employees for each industry, and no industry size standard includes a threshold as low as \$400,000. According to data from the Statistics of U.S. Businesses under the U.S. Census Bureau, the average small business with approximately five employees

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<sup>1</sup> Cioffi, Chris. "IRS Projects Growing Workforce 45% by Fiscal Year 2025 (1)." *Bloomberg Tax*, 10 Apr. 2023, <https://news.bloombergtax.com/daily-tax-report/irs-projects-growing-workforce-by-45-by-fiscal-year-2025>.

<sup>2</sup> "IRS Inflation Reduction Act Strategic Operating Plan." *Internal Revenue Service*, 6 Apr. 2023, <https://www.irs.gov/pub/irs-pdf/p3744.pdf>.

has receipts of more than \$424,000.<sup>3</sup> It is abundantly clear that small businesses will bear the brunt of these enforcement efforts; not solely large corporations and the wealthiest taxpayers.

This enforcement effort by the IRS also comes at a time when American small businesses have been facing significant economic pressures. Small businesses have faced significant challenges in recent years due to record levels of inflation as a result of the COVID-19 pandemic spending, with the Consumer Price Index increasing 5 percent over the last year according to the Bureau of Labor Statistics.<sup>4</sup> Ongoing high inflation levels has created an unfair, hidden value added tax on small businesses that has caused diminished margins.

Now is simply not the time to place unnecessary burdens on our small businesses as they continue to grapple with recent economic challenges. Please respond to the following questions no later than April 28, 2023:

1. By what precedent did IRS determine that enhancing audit rates of businesses earning more than the \$400,000 threshold would not impact small businesses?
2. Does the \$400,000 threshold apply to net income or revenues?
3. What criteria with regards to “better use of data analytics, technology, and centralized operations” will the IRS use to enhance audit rates of small businesses that earn more than \$400,000?
4. What efforts will the IRS use to protect the privacy of small business tax information from potential data breaches by criminals and foreign adversaries?
5. Will the IRS timely notify affected taxpayers after a data breach has occurred?

Small businesses are the backbone of the American economy. Instead of commencing a witch hunt on small businesses by enhancing audit rates without justification, we should focus on tax solutions that promote small business growth and economic competitiveness. I look forward to hearing from you on this important matter.

Sincerely,



Joni K. Ernst  
Ranking Member

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<sup>3</sup> Bureau, US Census. “Statistics of U.S. Businesses (SUSB).” *Census.gov*, 12 July 2022, <https://www.census.gov/programs-surveys/susb.html>.

<sup>4</sup> “Consumer Price Index Summary - 2023 M03 Results.” *U.S. Bureau of Labor Statistics*, U.S. Bureau of Labor Statistics, 12 Apr. 2023, <https://www.bls.gov/news.release/cpi.nr0.htm>.