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IRS Audit Triggers in 2026: How AI is Transforming Enforcement and What to Do to Prepare

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By the Guillen Pujol CPA Group Newsroom

On January 28, 2026, National Taxpayer Advocate Erin M. Collins delivered her annual report to Congress with a direct warning about the state of the federal tax agency. The IRS enters 2026 facing a 27% workforce reduction, leadership turnover, and the rollout of extensive legislative changes mandated by the One Big Beautiful Bill Act.

According to that report, the workforce dropped from over 102,000 employees in January 2025 to about 74,000 by December of the same year. Months earlier, in June 2025, Collins had already warned in her Fiscal Year 2026 Objectives Report that the reduction was 26% and that the IT and Taxpayer Services divisions had lost 27% and 22% of their staff, respectively.

Five weeks later, on March 4, 2026, the IRS's first Chief Executive Officer, Frank J. Bisignano, said in written testimony before the House Ways and Means Committee that the agency is using artificial intelligence and advanced data analytics to identify areas at high risk of noncompliance and fraud with greater precision.

Taken together, those developments point in the same direction. An agency with fewer personnel cannot sustain the same volume of audits it handled a decade ago. But that reduction in volume does not equate to a reduction in risk.

It means the agency is selecting cases more carefully, opening them with more information already in hand, and pursuing them with greater precision through third-party data, automated cross-checks, and increasingly sophisticated selection models. For taxpayers with high net worth, international operations, flow-through structures, or exposure to digital assets, understanding which risk patterns are drawing IRS scrutiny has become a practical necessity.

Here are the red flags drawing the most attention in 2026—and why a taxpayer's response to an IRS notice can be just as consequential as the underlying facts.

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Who Gets Audited by the IRS the Most in 2026?

The IRS is concentrating its resources on more detailed, higher-value examinations, including high-income earners, because those cases can generate far greater financial returns than lower-value audits. According to the latest IRS Data Book, published in May 2025, 505,514 audits were closed in fiscal year 2024, resulting in more than $29 billion in recommended additional tax. Of these, field audits, which represented 22.1% of the total, generated $23 billion, while correspondence audits, which accounted for 77.9%, brought in $6 billion.

This focus becomes even more evident when reviewing audit rates by income level. For tax year 2019, the IRS reported an audit rate of 4% for individuals with total positive income above $10 million, 3.1% for those between $5 million and $10 million, and 1.1% for the $1 million to $5 million range. In contrast, for incomes between $50,000 and $500,000, the rate was only 0.1%.

A January 2024 GAO report added that the IRS conducted very few audits of large partnerships, with rates below 0.5% since 2007, and that more than 80% of those audits did not result in findings of noncompliance. That points to a case-selection problem the agency has begun addressing through artificial intelligence models designed to focus on returns with a higher risk of error.

A TIGTA report on the IRS examination plan for fiscal year 2024 confirmed this trend. It found that the number of planned audits for taxpayers with total positive income above $400,000 was almost 2.5 times the average number of audits initiated between fiscal years 2019 and 2023.

Together, those developments point to a clear reality: if a taxpayer with high income, international assets, digital asset activity, or flow-through income from partnerships receives a notice, it is unlikely to be a routine inquiry. It is more likely to be a case the agency has already decided is worth pursuing.

What Triggers an IRS Audit? 5 Red Flags for High-Income Earners

The IRS does not publish a fixed formula showing the exact weight of each variable in its selection models. However, it does describe the general methods it uses, including computer screening, data analytics, third-party information matching, and targeted compliance campaigns led by its Large Business & International (LB&I) division.

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In practice, five audit triggers are drawing much of the scrutiny for high-income taxpayers and complex structures:

- **Unreported offshore accounts and discrepancies** with data reported to the IRS under FATCA.
- **Digital asset transactions** with unreported gains or activity that does not reconcile cleanly with the new Form 1099-DA
- **Severe discrepancies** between lifestyle, investment levels, and reported income.
- **Complex business deductions**, recharacterized expenses, and related-party transactions.
- **Inconsistencies between the tax return and third-party information** received via Forms 1099 and K-1, bank data, and international reporting.

Why You Need a CPA and an IRS Audit Attorney Before Responding

Once an IRS letter arrives, the issue is no longer purely accounting-related. It also becomes procedural. The IRS expressly recognizes the taxpayer's right to designate an authorized representative using Form 2848, who can represent the taxpayer before the agency, receive information about the matter, and manage communication within the established framework. It also recognizes the right to appeal decisions in an independent forum.

That framework of rights matters because it defines the playing field for every interaction with the agency. The IRS states that, in an audit, it will send a written request for the specific documents it needs to review.

If the taxpayer does not respond within the stated timeframe, the agency may complete the audit based on the information available and issue a report with proposed adjustments. Every response—and every failure to respond—is documented in the file and shapes what happens next.

In the cases we address in this article, IRS audit defense has two dimensions that work together. The accounting and analytical dimension is led by a CPA, who reconstructs the books, reconciles reporting sources, identifies inconsistencies before the IRS points them out, and builds the factual record that supports the taxpayer's position. Without that foundation, no legal strategy will work.

The procedural side of the case is led by a tax attorney, who determines what is produced, what is held back initially, and how communication with the agency is handled. The goal is to keep informal explanations out of the record and to structure the taxpayer's position not only for the immediate audit, but also for a possible

appeal or later tax controversy.

When the case involves offshore assets, digital asset transactions, related-party transactions, or the risk of substantial penalties, the strongest response is for both professionals to work in coordination from the outset.

In many cases, the tax attorney takes the lead and the CPA works under a Kovel letter—also known as a Kovel arrangement—through which the attorney engages the CPA to handle the financial and reporting side of the matter while helping preserve privilege. That structure can provide an added layer of protection for the taxpayer.

Legal representation does not eliminate the problem, but it completely changes how the taxpayer navigates the process. The IRS approaches every audit with a defined strategy, prior documentation, and a revenue collection goal. A taxpayer who responds without an equivalent strategy is playing at a disadvantage from the very first contact.

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IRS Audit Defense: How to Limit Your Financial Exposure

There is a disciplined way to respond to an IRS notice—and many costly ones. These are the steps that best protect the taxpayer's position once a letter has arrived:

- **Treat the notice as a document that defines scope.** The IRS initiates audit contact via a letter sent by mail, defining the initial scope of the examination. That scope can expand if the response introduces new topics, leaves inconsistencies unresolved, or provides documentation that raises additional questions. What the IRS initially requests is not necessarily what it ends up reviewing, and the first response sets a tone that is difficult to undo later.
- **Reconcile all information before producing a single document.** This includes reconciling Forms 1099, K-1s, Form 8938, FBARs, crypto exchange statements, basis schedules, third-party statements, and any other data source the IRS might cross-reference against the return. In data-driven audits, the quality of the documentation carries as much weight as the substance of the argument.
- **Support every deduction with documentary evidence from day one.** Receipts, canceled checks, invoices, and contemporaneous records remain the first line of defense when an audit questions business expenses or deductions. Documentation assembled *after* receiving the letter carries a different

evidentiary weight than records maintained contemporaneously.

- **Centralize communication with the IRS as soon as possible.** If the taxpayer plans to designate representation, doing so early prevents informal explanations, improvised answers, or information that later contradicts the formal position from being locked into the record. The IRS allows representation via a Power of Attorney (POA), and that designation can change the dynamic of the examination from the start. Keep in mind that if the case carries the risk of severe penalties or even the potential loss of the taxpayer's personal liberty, the early involvement of a criminal tax attorney is required.
- **Protect your appeal rights from the first response.** The IRS recognizes the right to appeal disagreements both within the agency and before the courts. That possibility is best defended when every step of the case is built with method, consistency, and a long-term vision.

How a CPA Firm Can Help When IRS Audit Risk Increases

With an agency operating with a smaller staff, increasingly relying on artificial intelligence to select cases, and cross-checking third-party data with greater reach and precision, the margin for reacting after a letter arrives has narrowed.

The prudent step now is to review whether any of these issues apply to your situation.

At **Guillen Pujol CPA Group**, we help you review the consistency between tax returns, supporting documentation, and third-party reporting; identify areas of exposure; and coordinate with legal representation when the case requires it. We work with high-income taxpayers, expatriates, international investors, and business owners who need to reconcile multiple sources of information *before* the IRS does it for them.

With over 35 years of experience in international tax planning, entity formation, and business consulting, we work with owners and executives who need to make decisions in these types of scenarios with professional backing, and we frequently collaborate with tax attorneys or criminal tax specialists.

The first step is a complimentary discovery meeting. During that meeting, we gather the information needed to prepare a clear service proposal based on your situation.

The meeting does not include technical consultations or answers to specific technical questions. If your case requires immediate technical advice, we also offer hourly paid consultations.

[Schedule a Discovery Meeting]

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Read more:IRS Refunds After Paper Checks End in 2025: FAQs for Expats and Non-Residents

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