IRS Criminal Investigation leveraging more data analytics

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The Internal Revenue Service is increasingly relying on data analytics technology to root out tax fraud and tax evasion, even as the number of special agents declines, according to a report released Wednesday.

The IRS's Criminal Investigation division's annual report indicated the IRS has been using the technology to do "predictive policing" to uncover potential tax cases.

"We prioritized the use of data in our investigations in fiscal 2018," said IRS CI chief Don Fort in a statement. "The future for CI must involve leveraging the vast amount of data we have to help drive case selection and make us more efficient in the critical work that we do. Data analytics is a powerful tool for identifying areas of tax noncompliance."

IRS Criminal Investigation chief Don Fort (r), is interviewed by Josh Ungermann, a partner at Meadows, Collier, Red, Cousins, Crouch & Ungerman, at the NYU Tax Controversy Forum

He noted in the report that while data analytics tools will never replace "good, old-fashioned investigative work, they will make us more effective and allow us to maintain our reputation as the world's finest financial investigators."

Fort acknowledged that the IRS CI unit is still in the early stages of using data analytics, but he cited some success already. "One particularly noteworthy success is the launching of the Nationally Coordinated Investigations Unit (NCIU)," he wrote. "This unit relies heavily on data analytics to help drive future case selection. In 2019, the NCIU will move from 'proof of concept' to an official CI section. The NCIU has already referred more than 50 leads to CI

field offices, and we expect that number to grow substantially this year."

A major focus for IRS criminal investigators this year has been cases involving international tax enforcement, employment tax, tax refund fraud and tax-related identity theft. The IRS has also been investigating instances of public corruption, cybercrime, terrorist financing and money laundering.

"This report shows that as financial crime has evolved and proliferated around the world, so have IRS Criminal Investigation special agents and their abilities to track the proceeds of financial crime," said IRS Commissioner Chuck Rettig in a statement. "CI uses cutting-edge technology combined with sophisticated investigative work to bring the most impactful cases that affect tax administration. I am extremely proud of our special agents and professional staff and their work serving the nation."

The Criminal Investigation division launched 2,886 cases this past fiscal year, with traditional tax cases making up 73 percent of them. However, resources have been strained at the unit due to budget shortfalls. The number of special agents fell below 2,100 by the end of fiscal year 2018, the lowest level since the early 1970s. One reason why the division needed to rely so much on data analytics was to make up for the shortage of special agents,

while helping IRS agents identify the cases that would have the most impact.

Despite the shortage of special agents, the CI division achieved an overwhelming conviction rate of 91.7 percent in fiscal 2018, among the highest of all federal law enforcement agencies, the IRS pointed out. The division is routinely called upon by prosecutors around the U.S. to lead financial investigations into a wide array of financial crimes.

This fiscal year 2019, which began on October 1, marks the 100th anniversary of CI as a law enforcement agency. "As we begin our 100th year, I could not be prouder to lead this exceptional agency of dedicated women and men," Fort stated. "We have never been more capable, better trained or more relevant to the financial crimes landscape."

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