



## **Getting Right With The IRS Costs Less Than Staying Hidden From It**

**Posted October 9, 2026**

**By Sandra R. Brown**

Millions of Americans fall behind on filing or reporting every year — not because they intend to break the law, but because the tax system can be difficult to navigate. Some become overwhelmed, embarrassed, and uncertain about where to begin. Falling behind is usually fixable. Remaining out of compliance, however, can make the financial and legal consequences substantially worse.

### **Why getting right with the IRS makes sense**

Delaying compliance can increase both the direct cost of resolving a tax problem and the disruption it causes. Depending on the circumstances:

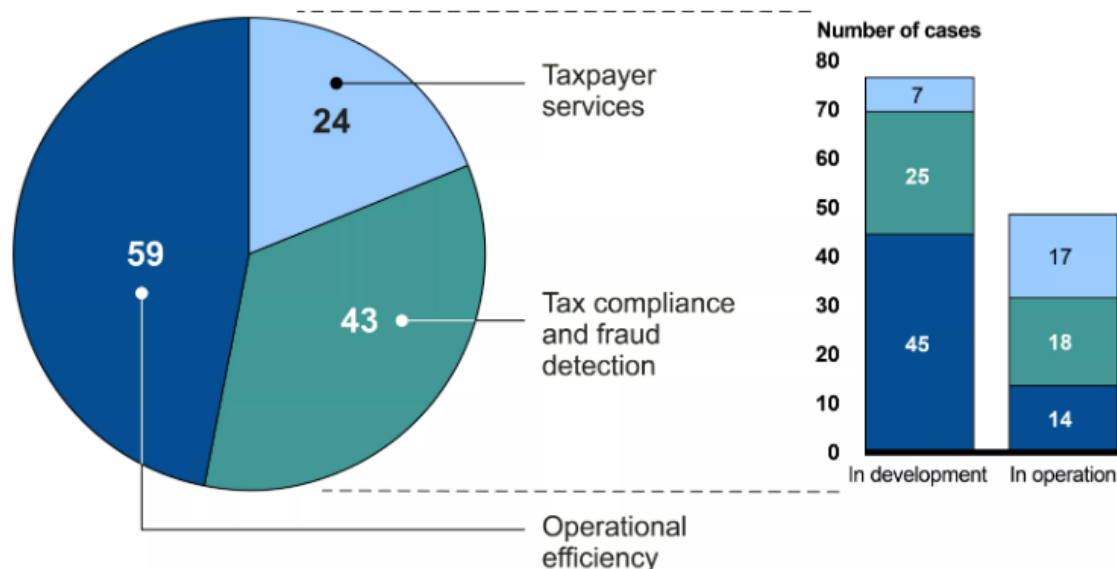
- Interest may continue to accrue.
- Failure-to-file and other penalties may increase.
- An unfiled return may prevent the limitations period from beginning.
- Deadlines for claiming refunds or obtaining certain forms of relief may expire.
- Failing to create a financial record may lead to poor business or investment decisions.
- Continuing uncertainty may complicate financing, a business sale, estate planning, or family finances.

### **How the IRS Identifies Filing and Reporting Gaps**

In September 2025, on the heels of losing approximately 25% of the IRS workforce that year, the Department of Treasury issued its “AI Strategy for OMB Memorandum”, declaring that, beyond operations and customer service, the current and planned use of AI would include enforcement and detection for both tax compliance issues and tax fraud.<sup>i</sup>

In March 2026, the Government Accountability Office (GAO), just before the April 15<sup>th</sup> filing deadline for many taxpayers, issued its report on how the IRS is using Artificial Intelligence to improve and impact taxpayer services, operational efficiencies, audit selection and fraud detection.<sup>ii</sup> Included in that report was a pie chart reflecting that of the 126 active AI use cases, 43 of those cases (34%) were focused on tax compliance and fraud detection.

IRS Artificial Intelligence Use by Category and Status (in development or in operation)



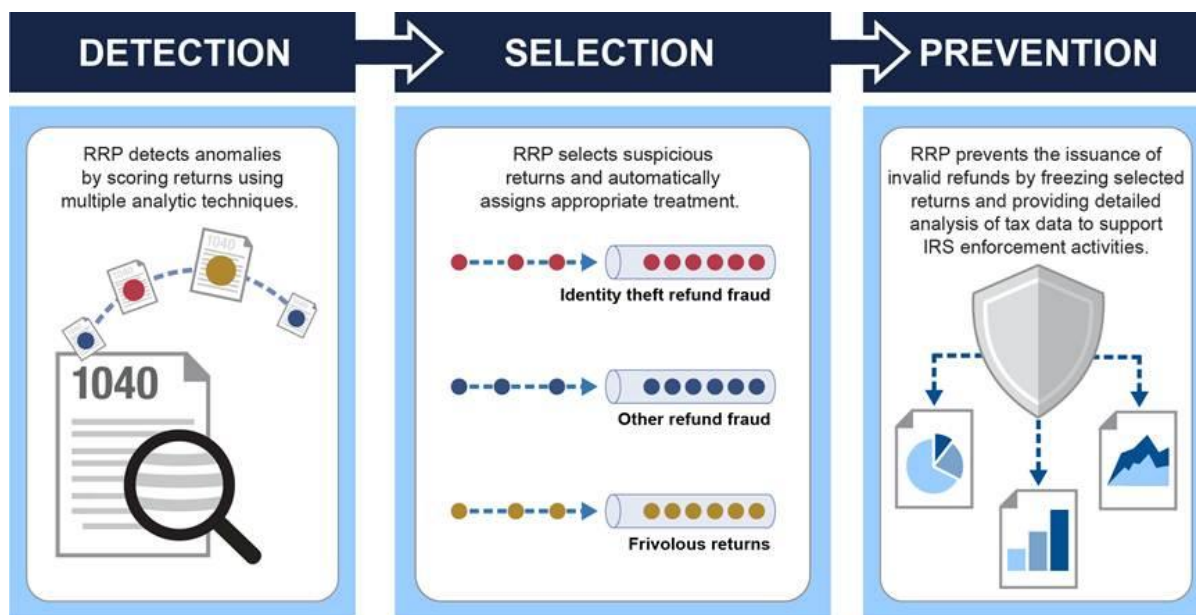
Source: GAO analysis of Internal Revenue Service's (IRS) June 2025 AI use case inventory. | GAO-26-107522

Now, in September 2026, on the cusp of another annual tax filing deadline, GAO has released another report focused entirely on tax fraud.<sup>iii</sup> This report estimates that the federal government loses somewhere between \$116 billion and \$304 billion a year to tax fraud — everything from unreported income to identity theft refund schemes.

The report also details how the IRS's existing systems find it anyway. Here are two of those systems:

### Automated Return Screening

The IRS uses the Return Review Program to screen returns claiming refunds for patterns associated with fraud or improper payments. According to the GAO figures cited in this article, the program prevented an estimated \$88 billion in invalid or fraudulent refund payments between 2018 and 2024. The program operates as a continuing automated screen rather than an occasional manual review.



Source: GAO analysis of Internal Revenue Service (IRS) information. | GAO-26-107810

## Audits and Information Matching

IRS examinations may identify discrepancies between a return and information supplied by employers, financial institutions, clients, and other third parties. Examiners may also consider unexplained spending, concealed accounts, digital assets, and other indicators when the facts warrant further investigation.

According to IRS, auditors across the agency completed more than 4.8 million audits from 2018 through 2024. As a result of their audit work, IRS auditors recommended an annual average of \$24.9 billion in additional tax assessments for this same period. Further, IRS auditors detected an annual average of \$3.7 billion in invalid refund payments during this same period, according to IRS.

## What Can Happen When the IRS Finds the Problem First

Here are some examples, as noted in the GAO report, of what can happen if the IRS finds a taxpayer with underreported income or unfiled returns before corrective action is taken:

### Concealed Offshore Income

- **Conduct:** Income was concealed through offshore trusts and bank accounts.
- **Detection:** An IRS examiner identified potential fraud indicators and referred the matter for criminal investigation.

- **Outcome:** The taxpayer pleaded guilty and received a prison sentence and restitution order.



From 2006 through 2012, the chief executive officer (CEO) of a health care company improperly classified millions of dollars in personal expenses as deductible business expenses on his tax returns to finance construction of a 51,000-square-foot mansion valued at approximately \$30 million.

The fraudulent expenses included interior and exterior construction costs of the mansion; design and furnishings; an outdoor pool and pool house; tennis, basketball, and bocce courts; and landscaping for the grounds. The CEO also fraudulently expensed millions of dollars for other personal expenses, such as luxury vehicles, artwork, country club memberships, homes for his children, and private school tuition for grandchildren.

In 2023, the CEO was ultimately sentenced to more than a year in prison and ordered to pay more than \$15.8 million in restitution.

Sources: GAO analysis of Department of Justice information; and yaroslavnaaa, Murad/stock.adobe.com (icons). | GAO-26-107810

## Long-Term Nonfiling

- **Conduct:** A business was operated for more than 15 years without filing returns or paying tax.
- **Detection:** Cash transactions and the prolonged failure to file became part of the government's case.
- **Outcome:** The individual received a prison sentence and was ordered to pay restitution.



Between 2002 and 2018, an individual generated millions of dollars in gross receipts from his business selling rife machines—devices that use energy waves to purportedly treat a wide range of medical conditions. However, during this period, he did not file or pay any taxes and took steps to conceal his income from the Internal Revenue Service (IRS). IRS began trying to collect unpaid taxes in 2012.

In 2025, the individual was sentenced to 2 years in prison for tax evasion and ordered to pay \$2.3 million in restitution.

Sources: GAO analysis of Department of Justice information; and rudal30/stock.adobe.com (icons). | GAO-26-107810

## Fraud by a Return Preparer

- **Conduct:** A preparer fabricated deductions on numerous client returns.
- **Outcome:** The preparer received a prison sentence and restitution order.
- **Taxpayer concern:** A taxpayer may still be responsible for the correct underlying tax even when inaccurate information originated with a preparer.



A tax preparer claimed his business had over 25 years of experience preparing tax returns and advertised that "Everyone Gets a Check!"

For tax years 2015 through 2020, the tax preparer filed at least 54 false tax returns for clients. These returns included false deductions, including medical and dental expenses, gifts to charity, state and local real estate taxes, unreimbursed employee expenses, and false business losses. The false information resulted in his clients claiming refunds that they were otherwise not entitled to receive and caused a tax loss to the Internal Revenue Service of nearly a million dollars.

In 2025, the tax preparer was sentenced to 14 months in prison, 1 year of supervised release, and ordered to pay \$988,565 in restitution.

Sources: GAO analysis of Department of Justice information; and rundall30, Genestro/stock.adobe.com (icons). | GAO-26-107810

Each of these cases involves their own unique set of facts and specific intent by the taxpayers and should not be treated as the likely outcome for every delinquent filer. The cases, however, illustrate how the consequences can escalate when serious or prolonged noncompliance is discovered before it is addressed.

## Why Voluntary Action Matters

The timing and circumstances of disclosure can materially affect how a tax problem is resolved. A taxpayer who files or corrects a return before receiving IRS contact may have options that become more limited after an examination or investigation begins. The result depends on the facts, including the taxpayer's intent, filing history, ability to pay, and the type of error involved.

## A Practical Path Back into Compliance

### 1. Identify the Missing or Incorrect Filings

Start by determining which years are unfiled and which filed returns may require correction. IRS wage and income transcripts can show information reported by employers, banks, brokerage firms, clients, and other third parties. These records can help reconstruct a return when personal records are incomplete.

### 2. File the Required Returns or Amendments

A delinquent return generally must be prepared using the forms and rules applicable to the year involved. If a return was filed but contained an omission or error, an amended return may be required. Filing and paying are separate steps; a taxpayer does not necessarily need to pay the entire balance before submitting the required return.

### 3. Address the Balance and Available Relief

After the required returns are filed, the taxpayer can evaluate payment arrangements and any available penalty relief. Options may include an installment agreement, first-time penalty relief, or relief based on reasonable cause. Eligibility depends on the taxpayer's



circumstances and compliance history. Penalty relief is not a loophole; it is part of the IRS's established administrative procedures for taxpayers who qualify.

#### *4. Consult a Qualified Tax Professional*

A licensed tax professional can help identify missing filings, reconstruct records, characterize income and expenses, evaluate available relief, and communicate with the IRS when appropriate. Professional advice is especially important when several years are involved, significant income was omitted, records are incomplete, or intentional conduct could be alleged. Acting sooner generally preserves more options than waiting for the IRS to make contact.

**SANDRA R. BROWN, LL.M. Taxation**, is a Principal of Hochman Salkin Toscher Perez P.C., where her practice focuses on criminal tax investigations, grand jury matters, litigation, and sentencing matters as well as representing and advising taxpayers involved in complex and sophisticated civil tax controversies, including sensitive-issue audits and administrative appeals and litigation. Ms. Brown's extensive experience and successes have included many notable cases including two U.S. Supreme Court decisions, numerous 9th Circuit rulings and favorable administrative resolutions for taxpayers involved in IRS investigations and audits. Prior to joining the firm in 2018, Ms. Brown served as the Acting United States Attorney, First Assistant United States Attorney, and Chief of the Tax Division in the Office of the U.S. Attorney, Central District of California, where, with 27 years as a trial lawyer, she personally litigated over 2,000 tax cases.

For more information, please contact Sandra R. Brown at [brown@taxlitigator.com](mailto:brown@taxlitigator.com).

*This article provides general information and is not legal or tax advice.*

---

<sup>i</sup> <https://home.treasury.gov/system/files/136/Treasury-AI-Strategy.pdf>

<sup>ii</sup> <https://www.gao.gov/products/gao-26-107522>

<sup>iii</sup> <https://www.gao.gov/products/gao-26-107810>