
The IRS Is Paying Attention Again: Why More Taxpayers Are Getting Notices

For a period of time, IRS activity felt quieter.

Response times were longer. Enforcement felt less visible. Fewer taxpayers were hearing from the IRS directly.

Many people got used to that environment.

Now things are shifting.

Not all at once, but steadily. More notices are being issued. More requests for clarification are being sent. More follow-ups are happening on items that may not have been reviewed as closely in prior years.

This is not a sudden change in direction. It is a return to a more active and better-equipped IRS.

What's Actually Changed

Over the past several years, the IRS has been rebuilding its infrastructure.

After a long period of limited staffing and outdated systems, the agency has been investing in technology, hiring, and enforcement capabilities as part of its long-term strategy.

That investment is now beginning to show up in real ways.

In its most recent reporting, the IRS noted that it collected over **\$98 billion in enforcement revenue in a single fiscal year**, reflecting a renewed focus on compliance and collection efforts.

At the same time, the agency is expanding its use of data analytics to identify discrepancies more efficiently.

Rather than relying heavily on random audits, enforcement is becoming more targeted and systematic.

A New Layer: How the IRS Is Using Data to Select Cases

One of the biggest changes is not just increased activity. It is how cases are being selected.

Recent reporting has highlighted that the IRS is testing more advanced data tools designed to identify what it calls "higher-value" audit and enforcement cases. These systems are built to connect information across multiple data sources and surface patterns that may not have been visible before.

In practical terms, this means the process is becoming more precise.

Instead of relying primarily on broad scoring systems or random selection, the IRS is increasingly able to analyze relationships between filings, supporting documents, and historical patterns to identify where discrepancies are more likely.

This does not mean more people are being audited at random.

It means the IRS is getting better at identifying which returns to look at more closely.

Why This Matters for Business Owners

This shift changes the nature of risk.

In the past, many taxpayers thought in terms of probability. What are the chances of being audited?

Now the question is different.

Does your return stand out based on the data available?

Areas that involve more complexity or interpretation, such as business deductions, credits, or multi-entity structures, are more likely to be evaluated through this lens.

This is especially relevant for areas where the IRS has already indicated increased focus, including certain credits, business filings, and transactions that require detailed supporting documentation.

Why More Taxpayers Are Receiving Notices

Most taxpayers are not being audited.

In fact, audit rates for the majority of individual taxpayers remain relatively low, generally **below 1%**.

However, more taxpayers are receiving notices, and that is where this shift becomes visible.

In many cases, these notices are triggered by specific, identifiable issues.

One of the biggest drivers is improved data matching. The IRS now compares tax returns against a broader set of third-party information, including W-2s, 1099s, brokerage reporting, and payment platform data.

When there is a mismatch, it is more likely to generate a notice.

There is also a continued focus on areas where reporting errors are more common, including business income, deductions, pass-through entities, and digital transactions.

In addition, modern systems allow the IRS to identify patterns that fall outside expected ranges. Returns that appear inconsistent based on income, deductions, or historical reporting are more likely to be reviewed.

Collection activity is also becoming more active again, particularly for unresolved balances and prior-year issues.

The Most Common Triggers Right Now

Most IRS notices are not random. They are tied to specific issues that can usually be identified with a closer look.

Some of the most common triggers include income that does not match reported forms, deductions that appear large relative to income, business losses that fluctuate significantly year to year, and misclassification of workers or expenses.

Unreported side income and digital payments have also become more visible due to expanded reporting requirements.

These are not new issues. What has changed is how quickly they are identified and acted on.

The Shift: From Broad to Targeted Enforcement

In the past, enforcement was often slower and more generalized.

Today, it is more precise.

The IRS is using data to focus on returns that are more likely to contain discrepancies, rather than applying a broad, random approach. This results in fewer random audits, but more targeted reviews.

For taxpayers and business owners, this changes the dynamic.

It is less about the overall likelihood of being selected and more about whether your return raises questions based on the data available.

What This Means for You

For most taxpayers, this is not a reason to be concerned. It is a reason to be prepared.

Accurate reporting, consistent documentation, and well-supported deductions are more important than ever. Items that may have gone unnoticed in the past are more likely to be reviewed.

That does not mean something is wrong. It simply means the margin for inconsistency is smaller.

If You Receive a Notice

The most important step is not to ignore it and not to respond too quickly without fully understanding what is being requested.

Many IRS notices are routine, but responding incorrectly or without proper documentation can create unnecessary complications.

Before taking any action, it is important to review the notice carefully and determine the best way to respond based on your specific situation.

Before You Take the Next Step

Receiving an IRS notice can feel urgent. It is easy to assume the worst or to react quickly just to resolve it.

In many cases, the better approach is to step back, evaluate the situation, and respond with a clear plan.

Whether the issue is a simple mismatch or something more complex, the way it is handled can affect the outcome.

If you have received a notice or want to make sure your filings are accurate and well-documented moving forward, our team can help you understand what is happening and guide you through the next steps.

Beat the SALT Cap: How PTET Lets Pass-Through Owners Reclaim State Tax Deductions

Article Highlights:

- Pass-through Entity Elective Tax
- OBBBA's Increased SALT Limits
- How PTET Works (The Basic Concept)
- Eligible Pass-through Entities
- How PTET Stacks Up Given Recent Federal SALT Law Changes
- Final Thoughts and Recommendations

If you pay substantial state and local taxes (SALT) and feel the pain of the federal cap on SALT deductions, you may find relief if you are eligible to use the pass-through entity elective tax (PTET), a planning tool to overcome the limit on deducting state and local taxes as an itemized deduction on your tax return. Several states let certain partnerships, S corporations, and similar pass-through entities elect to pay state tax at the entity level so owners can claim a federal business deduction for those state taxes and bypass the SALT limitation.

This article explains how PTET works, using California as an example. Other states follow a similar concept, but tax rates, deadlines, and other issues may vary. Learn when this SALT

workaround might help you, what to watch for, and practical steps to evaluate it for your situation.

OBBBA's Increased SALT Limits: Even though the One Big Beautiful Bill Act temporarily increased the SALT limits, the PTET workaround still makes sense for many taxpayers. The 2025 OBBBA legislation raised the federal SALT deduction ceiling for years 2025 through 2029, and without any extending legislation, the cap reverts back to \$10,000 in 2030.

In addition, the limit is reduced, phased down to \$10,000, for high income taxpayers by 30% of their modified adjusted gross income (MAGI) that exceeds the threshold for the specific year. The following table shows the maximum SALT deduction and high-income phasedown for each tax year.

| SALT DEDUCTION | | | |
|--------------------------------------|---------------------------|---|---|
| Year | SALT Deduction Cap | High Income Phasedown But cap not reduced below \$10,000 | |
| | | MAGI Phasedown Threshold | MAGI Fully Phased Down to \$10,000 |
| 2025 | \$40,000 | \$500,000 | \$600,000 |
| 2026 | \$40,400 | \$505,000 | \$606,333 |
| 2027 | \$40,804 | \$510,050 | \$612,730 |
| 2028 | \$41,212 | \$515,150 | \$619,190 |
| 2029 | \$41,624 | \$520,302 | \$625,719 |
| 2030 and Subsequent years | \$10,000 | Not Applicable | |

The increased deduction amounts do not eliminate the situations where PTET is beneficial:

- Taxpayers with SALT above \$40,000 may still prefer PTET because shifting state tax to the entity can convert individual, limited itemized deductions into an entity deduction that fully reduces federal taxable income.
- Even taxpayers below the \$40,000 ceiling can benefit from PTET if the entity deduction interacts favorably with other items (for example, reducing pass through income that otherwise triggers higher federal marginal rates, phaseouts, or net investment income tax exposure).
- PTET remains especially attractive where owners own multiple entities or where state tax credits and carryover rules make the economics favorable.

How PTET Works (The Basic Concept)

- **The Election:** Each year, the pass-through business (S-Corp, Partnership, or certain LLCs) decides if it wants to "opt-in" to this special tax. This must be done on a timely filed original tax return and is irrevocable for that year. Not all partners or shareholders of the business need to opt in for the other owners to participate.
- **The Tax Rate:** The business pays a tax on its "qualified net income"—basically, the share of profit belonging to the owners who agree to participate. In CA that tax is a flat 9.3%.
- **The Federal Benefit:** Because the business pays this tax, it counts as a business expense. This reduces the amount of profit reported on the participating owner's

federal K-1, effectively letting the participating partner or shareholder deduct the full state tax amount from their federal income.

- **The State Benefit:** On the individual's personal tax return, they get a **nonrefundable credit** equal to the tax the business already paid on their behalf. In California, if the credit is more than what the individual owes, the leftover amount can carry forward for up to 5 years.

Eligible Pass-through Entities: Eligible entities typically include S corporations, partnerships, and LLCs taxed as partnerships or S corps. Each state's rules vary, but these entity types are the norm.

Ineligible situations generally include sole proprietorships, publicly traded partnerships, and certain ownership structures (check your state's rules if an owner is itself a partnership or similar complex owner).

Not all pass-through entity owners have to opt in. An owner must consent to participate to receive the credit, but a subset of consenting owners can still allow the entity to make the election for those participants.

How PTET Stacks Up Given Recent Federal SALT Law Changes

- As mentioned previously the 2025 OBBBA legislation temporarily raises the federal SALT deduction cap for 2025–2029. Even with higher temporary caps, PTET can still be beneficial:
 - Taxpayers with SALT well above the temporary caps may still prefer PTET to convert the state tax burden into an entity deduction that fully reduces federal taxable income.
 - Even taxpayers below the temporary caps can benefit if the entity deduction interacts favorably with other tax items — for example, reducing pass-through income that would otherwise push the taxpayer into a higher tax bracket, cause phaseouts, or trigger net investment income tax or other surtaxes.
 - Owners of multiple entities, or those who benefit from state-specific credits and carryover rules, may find PTET especially attractive.

Bottom line, model both scenarios — itemizing with the applicable SALT cap vs. PTET to determine the better result for your specific facts.

Final Thoughts and Recommendations:

PTET is a powerful tool for many taxpayers facing SALT limits, but it's not a one-size-fits-all solution. The temporary federal increases to the SALT cap through 2029 change the math for some taxpayers, so current-year modeling is essential.

Contact this office if you want a basic model comparing PTET versus itemizing for your numbers.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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