

# United States Senate

WASHINGTON, DC 20510

May 13, 2025

The Honorable Michael Faulkender  
Deputy Secretary  
Department of the Treasury  
1500 Pennsylvania Avenue NW  
Washington, D.C. 20220

Dear Deputy Secretary Faulkender:

We write today seeking an update on the Internal Revenue Service (IRS) pass-through compliance unit that has been operating within the Large Business and International (LB&I) division. We are concerned that this initiative, established under the previous administration, appears to have been motivated by ideological considerations rather than the principles of sound tax administration.

Pass-through entities form the bulk of Main Street businesses across the country. This includes countless family businesses, professional services firms, and real estate ventures that serve as the backbone of our local economies. Taxpayers have the lawful right to choose these structures for benefits like liability protection, operational flexibility, and simplified tax filing. The creation of an enforcement unit specifically focused on pass-through entities raises legitimate concerns about whether the focus is on improving compliance or simply targeting specific business structures based on institutional prejudice.

This type of targeting is problematic no matter the size of the business, but is especially challenging for smaller businesses who have fewer resources to navigate such audits. In particular, the IRS's October 2024 announcement about the unit stated that, going forward, "LB&I will be responsible for starting pass-through exams, regardless of entity size" and touted "removing the entity-size barrier" as a means to increase audit rates.<sup>1</sup> This shift subjects small businesses traditionally handled by the Small Business/Self-Employed (SB/SE) division to LB&I's complex examination procedures designed for sophisticated taxpayers. Most American small businesses lack the resources to navigate these intensive audits, creating disproportionate compliance burdens despite prior assurances that taxpayers under \$400,000 would not face increased enforcement relative to historical levels.<sup>2</sup>

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<sup>1</sup> IRS News Release, IR-2024-276, IRS Announces Launch of Pass-Through Compliance Unit in LB&I; New Group Brings Together Teams of Specialists from Across the Agency to Tackle Large or Complex Exams (Oct. 22, 2024), <https://www.irs.gov/newsroom/irs-announces-launch-of-pass-through-compliance-unit-in-lbi-new-group-brings-together-teams-of-specialists-from-across-the-agency-to-tackle-large-or-complex-exams>.

<sup>2</sup> U.S. Department of the Treasury Press Release, Secretary of the Treasury Janet L. Yellen Sends Letter to IRS Commissioner in Support of Funding for IRS to Improve Taxpayer Service & Combat Evasion by High Income Earners and Corporations (Aug. 10, 2022), <https://home.treasury.gov/news/press-releases/jy0918>.

The IRS's news release also referenced targeting "complex arrangements" without providing clear definitions, creating the impression that legitimate business structures could be unfairly targeted based on their legal structure rather than actual compliance risk.<sup>3</sup> Even more concerning, the announcement explicitly states that the bureaucratic changes were designed primarily to "achieve its goal of increased audit rates in this complex area" rather than to address legitimate compliance concerns derived from an evidence-based risk assessment.<sup>4</sup> This focus on increasing audits rather than improving compliance suggests an agenda-driven approach to enforcement.

Perhaps most troubling of all, the announcement indicates that while LB&I will initiate pass-through examinations, the SB/SE division "will continue to examine pass-through entities as part of a related exam of a tax return."<sup>5</sup> This gives the appearance of duplicative audits from both divisions, substantially increasing compliance costs and administrative burdens. We seek assurance that businesses won't face aggressive enforcement simply because they operate as pass-through entities.

Given these ongoing concerns about the opaque nature of this unit's operations and the critical importance of pass-through businesses to our nation's economy, we request responses to the following questions:

1. How many pass-through businesses have been examined by the pass-through compliance unit since its implementation, and can you provide a breakdown by entity size?
2. Because taxes for pass-through entities are typically paid by those that own the entity, what specific safeguards have been implemented to honor Secretary Yellen's promise to American taxpayers that audit rates will not rise relative to recent years for households making under \$400,000 annually? How is this \$400,000 threshold measured (e.g., \$400,000 of taxable income)?
3. What statistical criteria and risk assessment models are being used to select pass-through entities for examination?
4. How is the IRS measuring this program's success beyond increased audit rates and additional tax assessments?
5. The IRS's October 22, 2024 press release gives the impression both LB&I and SB/SE will be actively examining a pass-through entity. Is it possible pass-through businesses may face examinations from both operating divisions? What safeguards are in place to prevent taxpayers from enduring what might be described as a "double audit?"
6. Given the October 2024 news release's explicit goal on "increased audit rates", what steps are being taken to ensure audit selection is based on legitimate compliance risk rather than forcing honest taxpayers into a dragnet to meet pre-established numerical targets?

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<sup>3</sup> IRS News Release, IR-2024-276 (Oct. 22, 2024).

<sup>4</sup> *Id.*

<sup>5</sup> *Id.*

The hardworking Americans who operate pass-through businesses deserve an IRS that respects their rights and focuses enforcement efforts on actual non-compliance rather than implementing politically motivated initiatives. We look forward to your response on this important matter.

Respectfully,



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Marsha Blackburn  
United States Senator



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John Barrasso, M.D.  
United States Senator



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Steve Daines  
United States Senator



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James Lankford  
United States Senator