

CLIENT LINE

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IRS steps up audits

The Internal Revenue Service has added a couple of notches to its enforcement belt. First came the disclosure that international financial services giant Credit Suisse is under federal investigation for helping U.S. citizens avoid taxes using foreign accounts. Then came multiplatinum rapper Ja Rule's conviction for failing to pay taxes on 3 million in earnings. He was sentenced to 28 months in prison. Gulp.

These high-profile examples of stepped-up IRS enforcement can't help but fuel worry even among the most honest taxpayers: Will the IRS raise a question *on my* return? Was there a faulty calculation? Did I claim a deduction that will raise a red flag?

Depending on your occupation, income and the kinds of claims you've made, there may be reason for concern. With government revenue in short supply, the IRS has begun bearing down on specific groups of wealthier taxpayers and is showing far less sympathy than in years past.

And new programs have been launched to help spot problem returns, according to Steven Miller, deputy IRS commissioner for services and enforcement. Last year, the IRS created the Global High Wealth Industry Unit, in which agents work in teams to evaluate wealthy taxpayers' profiles. "When you look at the 1040, it doesn't tell the whole story," Miller says.

This year, to crack down on underreporting of income, agents will begin reviewing your credit card statements and crosschecking data against tax returns, Miller says. Big spenders who claim little income, beware.

Don't think you're under the radar just because your income is a tiny fraction of Ja Rule's millions. The IRS likes small, inexpensive audits because they can influence other taxpayers to comply. A co-worker or friend gets audited and you are likely to be more careful.

One audit may only bring in \$500, but if you can increase compliance in that group of taxpayers by 20 percent because people hear about the audits, then for the IRS it's worth it.



Still, for the general population the chance of coming under IRS scrutiny is slim. The audit rate last year was 1.1 percent of all taxpayers, up from 1 percent a year earlier.

Among certain groups the rate is significantly higher. Those who operate their own businesses and are required to file Schedule C forms (estimated by the IRS to be underreporting income by about \$68 billion a year) have an audit rate of just over 4 percent. The wealthy get far more attention.

The audit rate was 3.1 percent for taxpayers with income of more than \$200,000 last year, and 8.1 percent for those earning more than \$1 million.

Other broad areas of interest by IRS enforcement agents align with the biggest areas of suspected fraud, such as returns claiming refundable tax credits, over-reporting deductions and offshore accounts.

Some of the IRS's latest areas of focus according to the agency:

Interest deductions-home loans

Taxpayers who claim big interest deductions on mortgages and equity loans have come under scrutiny

Homeowners are allowed to claim an interest deduction for up to \$1 million of mortgage debt, and up to \$100,000 of home equity debt.

Adoption credit

After the adoption tax credit was raised to a maximum of \$13,170 last year and it became refundable — meaning you can claim it and get a refund even if you owed no taxes the IRS started flagging anyone who took the adoption tax credit last year and asking for proof.

Gifts of property

The IRS has been scouring state property transfer records and comparing them with tax records to find taxpayers who haven't disclosed real estate gifts. With property values depressed, gifting real estate has become more popular, particularly among the wealthy.

Under current law, you must file a tax return for gift values in excess of \$13,000. Anyone whose undisclosed gift exceeds the \$1 million unified credit (the maximum you can give away in a lifetime without paying the gift tax) will be subject to penalties and interest.

Ultra-rich

The audit rate for taxpayers with more than \$10 million in income rose to 18 percent from 10 percent last year. And with the IRS' new global wealth squad, these taxpayers should expect a colonoscopy-style checkup rather than the old-style exam.

It's unclear how long the IRS can keep flexing its muscles at its current level. The agency has requested that its \$12.1 billion budget be ramped up to \$13.3 billion next year, but cuts appear likely. This may force the IRS to trim enforcement or it could mean taxpayer service will be scaled back first, making audits potentially more painful.

Large donations relative to income

The IRS is sizing up charitable deductions against income, looking for discrepancies. Some innocent retired people with low income are now targeted.

The purpose of this newsletter is to provide current information on tax, financial and business developments and to suggest general tax planning ideas that may be appropriate in certain situations. The opinions are generalizations and may not apply to all taxpayers, so it is important that you seek our professional advice before implementing any tax strategies mentioned in this publication



Events that trigger a review of your tax situation

- ✚ You borrow money for your business
- ✚ You are adding to or drawing from a tax deferred account
- ✚ You decide to pay off a loan (business/personal)
- ✚ You are getting married or divorced
- ✚ You buy or sell your home or vacation property
- ✚ You want to make a large gift to a child or relative
- ✚ You are starting, buying or selling a business
- ✚ You are incurring business expenses as an employee
- ✚ You are buying or selling business equipment
- ✚ You are considering a large charitable gift



We win again!

Atlanta magazine 2011 Five Star Wealth Managers

Business audits rise w/ GA staffing increase.

With 95 new auditors, 40 new revenue agents, odds go up for business owners

If you are a business owner, the odds of being audited by Georgia tax authorities have gotten higher, due in part to a beefed-up staff to collect more state sales taxes. The state is walking away from restaurant audits with checks between \$5,000 and \$20,000 for each restaurant according to sources inside the state capital.

Frank O'Connell, director of the office of tax policy, said the state doesn't target any one particular industry.

But haphazard recordkeeping in the restaurant business are yielding success. Restaurants and other businesses can avoid these potential traps by hiring our firm to track sales via software that is auditable and safe.

The revenue department said auditors collect on average over 1 million dollars per year each to a typical \$65,000 salary. Revenue agents collect \$650,000 per year and cost \$55,000 per position.

YOUR FALL TAX CALENDAR

September 15 th	August monthly payroll tax deposits for IRS & State
September 15 th	Third quarter 2011 estimated taxes due
September 15 th	Final date for filing 2010 calendar basis Corporate income tax returns, LLCs and Partnerships
October 15 th	September monthly payroll tax deposits for IRS & State
October 15 th	Final date for filing 2010 extended 1040s
October 31 st	Third quarter 2011 payroll tax returns due



HAVE YOU FILED YOUR 2010 FEDERAL & STATE RETURNS?

If we filed an additional extension for your 2010 individual taxes, time is very quickly coming upon us to complete your filing. October 15th is the final date to file individual returns and September 15th for corporate. If you have not been in contact to schedule the completion of your return, call today.

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