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Are You Being Target by the IRS?

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As tax practitioners and taxpayers, we understand that there will always be a certain amount of "checking in" by government taxing authorities. This follow up by the government is expected to help make sure taxpayers comply with the tax laws. Recently, however, we have seen an increase in notices and correspondence from the IRS and state taxing authorities due to rising deficits as well as the ever-increasing complexity of the tax laws.

While receiving a letter from a taxing authority can be unnerving, many tax notices are resolved relatively easily and with no additional tax cost. Quite frequently, providing support for a tax payment which has been misapplied or substantiation for another item on the tax return resolves the issue. We recommend contacting us to assist in handling any tax notices you receive since we have experience in handling these issues and can also gauge whether there is more at stake than the face of the notice may indicate.

We recently ran into an audit situation in which the IRS requested supporting information on tax return items which had no impact to the tax liability. We found out during the course of the exam that the audit was primarily a training vehicle for new field audit personnel. It is a bit frustrating to find out the IRS trains its audit personnel on the taxpayers' time (and dime!).

We also get involved in matching program cases in which the tax authority tries to match amounts reported on a tax return to the Forms W-2, Forms 1099, and K-1s that are issued. Often the reported items need to be adjusted and reported differently on the tax return to obtain the proper tax result which may cause confusion with the IRS. On occasion, these matching notices request information for items which has been reported exactly as reported on the tax documents. Most of these notices result in no change to the tax liability.

We have even seen instances in which taxing authorities have employed more aggressive approaches to enforce their positions. For example, we have seen states challenge deductions flowing through on investment partnerships K-1s, whereby the states are denying the deductions to the taxpayer unless the taxpayer can defend the position that was taken at the partnership level. For taxpayers who are limited partners and own a small portion of the partnership, it may be very difficult or impossible to get the information needed to support the deduction claimed or position taken.

Finally, be aware of potential scams which disguise themselves as tax correspondence. The IRS does not email taxpayers so please do not respond to any email request which purports to be from a taxing authority. If you receive any correspondence from a taxing authority, please contact us immediately so that we may assist you in determining the best way to handle and assess the situation. Rest assured, you are most likely not being targeted by the IRS, but it is better to be safe than sorry.