

July 1, 2009

**RE: Current Events Memorandum
The IRS Gears up for More Examinations**

The federal government estimates that there is about \$350 billion in uncollected tax by the IRS. This “tax gap” represents the difference in the taxes collected and amount believed to be due. The IRS is beginning a new crackdown on missing revenue. For every additional dollar invested in IRS enforcement, four dollars are received in added tax revenue.

The IRS is focusing on people who don’t file tax returns as well as taxpayers who underpay their bills by taking deductions, credits and exemptions they misstate or are not entitled to receive.

Areas that the IRS will be securitizing carefully are as follows:

Itemized deductions- the IRS uses ranges established by income groups. The odds of being audited go up when deductions exceed these ranges. Taxpayers should be able to provide all supporting documents for deductions.

Research credits- the IRS will begin scrutinizing refunds for the research credit because cases of improper documentation and invalid assumptions have been found in 2008 returns.

Investment income- the IRS often discovers unreported taxable income when its’ computers compare the income reported on tax returns with the information reported by financial institutions. A law passed last year will require securities brokers to calculate gains and losses on short and long term investments beginning on or after 2011.

Self employment income- the IRS publishes manuals for dozens of businesses to provide self-employed individuals the means by which to comply with the law because this group often underreports income and overstates deductions.

Home office deductions- the IRS requires that a home office be a principal place of business and a place where clients are met regularly. This is a legitimate deduction if this claim can be substantiated.

Automobile expenses- the IRS requires that a daily log of business mileage is kept along with odometer readings as well as dates of business meetings, locations, names of clients, and nature of relationships.