

MORE AUDITS FOR THE WEALTHY

The IRS has nearly doubled its examinations of returns from the richest taxpayers.

Presented by: Debe Pennington, APA, APM

IRS audits are up nearly 8% for the wealthiest Americans. This spring, the Internal Revenue Service released the *2010 IRS Data Book*. Journalists and tax professionals looked inside and noticed a couple of eyebrow-raising statistics:

- The IRS audited 18.4% of 2010 tax returns filed by taxpayers with adjusted gross incomes above \$10 million. That's up from just 10.6% for 2009.¹
- Taxpayers with AGI between \$5 million and \$10 million were also targets. Audits increased by 55% for this group in 2010 (the percentage of audited returns jumped from 7.5% to 11.6%).²

What's going on here? The IRS has ramped up its efforts to investigate offshore bank accounts and tax shelters - and it appears to be acting on its newfound knowledge. It inaugurated a Global High Wealth Industry Group in 2010 to "centralize and focus IRS compliance expertise involving high net worth individuals."

As IRS Commissioner Doug Shulman stated at a meeting of the New York State Bar Association Taxation Section, "We're looking for and finding points of leverage - what some call 'nodes' of activity - where multiple people not paying taxes can be detected. Financial institutions are one such potential node of activity. Promoters of evasion schemes are another."³

Now the IRS has started an Offshore Voluntary Disclosure Initiative, providing information in eight different languages to reach taxpayers and preparers who are non-native English speakers. By coming forward about undisclosed offshore accounts, they stand a chance of avoiding criminal prosecution.⁴

Audit rates increased across the board last year. The overall IRS audit rate was 1.11% in 2010, up from 1.00% in 2009. The taxpayers least likely to face an audit were within the \$75,000-\$100,000 AGI range (just 0.64% of their returns were audited).²

Do your part to look good. Most audits are not purely attributable to bad luck. Why not do the little things that may help to decrease the odds? Some of the basics: document all expenses relatable to your business, report every bit of income, claim sensible but not outlandish deductions, avoid portraying a hobby as a business venture, sign your return, and work with a really good tax preparer.

DEBE PENNINGTON, APA, APM, IS A CONSULTANT WITH LIDEN, NESTLE, SOLED & ASSOCIATES, INC. A BENEFIT CONSULTING FIRM. DEBE CAN BE REACHED AT: DEBEPENNIE@AOL.COM OR DEBE_P@LNSPENSIONS.COM, (818) 991-8871 EXT. 118

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Citations

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