THE SMALLBIZ BUILDER

PADGETT THE SMALL BIZ PROS

May 2014 PADGETT BUSINESS SERVICES® Vol.12, No. 5

THIS MONTH:

Should I Panic if I Receive an IRS Notice?

No! Each year, the IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many can be dealt with simply and painlessly. Here are some tips:

1) Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice will likely cover a specific issue about your account or tax return and provide specific instructions on what you are asked to do to satisfy the inquiry.

2) If you receive a correction notice, you should review the correspondence and compare it with the information on your return. If you agree with the correction, then usually no reply is necessary unless a payment is due or the notice directs otherwise.

3) If you do not agree with the correction the IRS made, it is important that you respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.

4) Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help them respond to your inquiry.

5) Always keep a copy of the notice and any correspondence for your records. Also, keep a memo of all phone calls including date, IRS employee name and number, etc.

Statute of Limitations

After you file your taxes, you will have many records that may help document items on your tax return. You will need these documents should the IRS select your return for examination. Generally, this means you must keep records that support items shown on your return until the statute of limitations for that return runs out.

The statute of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Returns filed before the due date are treated as being filed on the due date.

IF you...	THEN the period is...
1) Owe additional tax and (2), (3), and (4) do not apply to you	3 years
2) Do not report income that you should and it is more than 25% of the corrected gross income shown on your return	6 years
3) File a fraudulent return	No limit
4) Do not file a return	No limit
5) File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid.
6) File a claim for a loss from worthless securities	7 years

JEFF STRUBLE
1660 S ALMA SCHOOL RD STE 226 MESA AZ 85210 480-668-1155 FAX: 480-668-1313
1332 W PEORIA AVE STE 105 PHOENIX AZ 85029 602-354-5127 FAX: 602-354-5590
www.rhinodreams.com
jeff@rhinodreams.com padgett@rhinodreams.com

Are You at Risk for an IRS Audit?

Over the past year, the number of IRS employees fell 4.7% and the IRS audit budget dropped 5.3%. So, what does this mean for your chances of being audited? The IRS chart below indicates the latest audit rates for various Adjusted Gross Income levels for Individuals. These low percentages appear to be in the taxpayers' favor. But don't be fooled; despite these statistics, there are some taxpayers that may be more susceptible to audit! In particular, the IRS consistently audits self-employed taxpayers filing schedule C for accurate reporting of income and expenses. We have also seen an increase in IRS examination of reasonable compensation paid to shareholders. And don't forget about the Form 1099-K, *Payment Card and Third Party Network Transactions!* Matching notices are being sent to taxpayers requesting a reconciliation of income reported on the tax return to the income reported on Form 1099-K.

Table 9b. Examination Coverage: Individual Income Tax Returns Examined, by Size of Adjusted Gross Income, Fiscal Year 2013

Size of adjusted gross income [1]	Returns filed in Calendar Year 2012 (percent of total) [2]	Examination coverage in Fiscal Year 2013 (percent) [3]
All returns [4]	100.00	0.96
No adjusted gross income [5]	2.08	6.04
$1 under $25,000	39.91	1.00
$25,000 under $50,000	23.55	0.62
$50,000 under $75,000	13.02	0.60
$75,000 under $100,000	8.12	0.58
$100,000 under $200,000	10.09	0.77
$200,000 under $500,000	2.60	2.06
$500,000 under $1,000,000	0.41	3.79
$1,000,000 under $5,000,000	0.19	9.02
$5,000,000 under $10,000,000	0.01	15.98
$10,000,000 or more	0.01	24.16

[1] Adjusted gross income is total income, as defined by the Internal Revenue Code, less statutory adjustments—primarily business, investment, and certain other deductions.

[2] Calendar Year 2012 data are presented because, in general, examination activity is associated with returns filed in the previous calendar year.

[3] Represents the number of returns examined in Fiscal Year 2013 for each adjusted gross income (AGI) class, as a percentage of the total number of returns filed in Calendar Year 2012 for that AGI class.

[4] In addition to examinations of returns filed, the IRS examined more than 135,000 cases in which no return was filed. These nonfiler cases were referred for examination by the Collections Program and the Automated Substitute for Return (ASFR) Program. Under the Automated Substitute for Return Program (ASFR), the IRS uses information returns from third parties (such as Forms W-2 and 1099) to identify tax return delinquencies, constructs tax returns for certain nonfilers based on that third-party information, and assesses tax, interest, and penalties based on the substitute returns. These nonfiler cases are excluded from the examination data in this table.

[5] Includes returns with adjusted gross income (AGI) of less than zero. AGI may be less than zero when a taxpayer reports losses or statutory adjustments that exceed total income.

Chart taken from: http://www.irs.gov/uac/SOI-Tax-Stats-Examination-Coverage-Individual-Income-Tax-Returns-Examined-IRS-Data-Book-Table-9b