

IRS targeting certain deductions in effort to close tax gap

By Christina Klein

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Sen. Max Baucus (D-Mont.), the top taxwriter in Congress, has asked the IRS to narrow the tax gap.

The tax gap is the difference between what taxpayers should report as income and what is actually reported.

Some estimate the tax gap creates a \$300 billion revenue shortfall to the government each year.

The IRS plans to step up audits to narrow this tax gap. The Government Accountability Office recently did a study on the tax gap, and told the IRS which areas have the highest percentage of misreporting.



Taxpayers should expect the IRS to focus its auditors in these areas.

They include: sole proprietors reporting on Schedule C; S corporations where owners do not take enough salary for themselves in an effort to minimize payroll taxes; gamblers who underreport their winnings; people involved in farming activities; Earned Income Tax Credit taken by those who don't qualify; incorrectly reported capital gains from sales of investments; and itemized deductions taken on Schedule A for medical expenses, charitable contributions and unreimbursed job expenses.

Congress has promised to give the IRS more tools to catch noncompliance, specifically increased computer matching of 1099s (for reporting various income) and 1098s (for reporting mortgage interest paid).

Many taxpayers have already begun to receive notices for unreported income and mortgage interest deductions that do not match IRS records.

The IRS has said it plans to do more random audits in the next few years than it has in the past.

The IRS also plans to increase the requirement so firms must file 1099s for payments of more than \$600 to corporations, instead of just to individuals and partnerships and to require brokers to report the purchase price when securities are sold.

Ensuring that income and expenses reported on your tax return match the available 1099 and 1098 forms will help you avoid getting any error notices as the IRS scrutinizes tax returns in the future.

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