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With four specific services, The Center provides complete unbiased planning. The Center does not sell any products; its main purpose is to provide advice. Local experts are retained to implement the plans developed by the Center. The Center for Financial, Legal & Tax Planning is located at 4501 W. DeYoung Street, Suite 200, Marion, Illinois 62959. Phone 618-997-3436; Fax 618-997-8370.

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More Audits For The Middle and Upper Middle Class

The United States Congress and The Internal Revenue Service have been under increasing pressure in recent years to examine and eliminate the phenomenon known as the "tax gap" in this country. The tax gap is the difference between what taxpayers should be paying and what taxpayers actually end up paying the government. In the United States, the annual tax gap is approximately \$300 billion and the IRS is working fervently to close this gap and prove itself to Congress. What does this mean for the average taxpayer? Simply stated, a greater chance to be audited.

The IRS Target

Recent audit numbers have shown that audits of "high income individuals", "millionaires", and "other high income individuals" are substantially up year after year. What is shocking about the Internal Revenue Service is their ability to defy reality and define many middle class tax-

payers as high income taxpayers. To start, the IRS defines a "high income individual" as anyone with a "total positive income" of \$100,000 and above. Total positive income merely means the IRS adds the positive income on the 1040, but regards any losses as zeros.

Millionaires and "other high income individuals" are defined as those earning \$1,000,000 plus annually and those earning above \$200,000 annually, respectively. Their audit rate is up considerably. In fact, in 2007, 1 out of 11 millionaires was audited, which is a significant uptick in the audit rate from prior years. A 30% increase in audit rates for other high income taxpayers was also experienced during 2007.

What To Do...

If you find yourself in one of the target groups, the important thing to remember is to not to panic. Most

audits begin and end with correspondence. A few out of ten are called in for a face-to-face audit. However, with that said, it is important for the targeted income taxpayers to 1) be prepared for an audit and 2) have tax counsel advice.

First, the taxpayer should easily be able to find three years records, including all 1040's, schedules, attachments, and supporting documentation upon relatively short notice. If there are questionable or grey area items, it is best to make notes of the items. If there are red flag items such as large missing income items, etc, it is best to see an accountant or a tax attorney to deal with the items long before an audit is called for. Keep your records in a safe place.

Second, the taxpayer should employ competent tax counsel for an audit. No taxpayer should ever go in front of an auditor without proper representation. It is in these audits that taxpayers without counsel, tend to talk their way

into problem areas. Forming a relationship with an attorney or an accountant is always a good idea if you are a high income individual.

Finally, if you are chosen for an audit, as I have said above, do not attend the audit hearing alone. Employing and utilizing a professional is well worth the expense and can prevent problems before they occur.

What Not To Do....

Too many taxpayers wait until the last minute and walk into an audit completely unprepared and without counsel. Sometimes, taxpayers won't even know what they need to bring to the auditors. Consequently, taxpayers may bring unnecessary documents and even documents that may result in problems for the taxpayer. Reaching this point in an audit has conse-

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