

# **RANDOM AUDITS RETURN**

## **JUNE 2007**

Eerily reminiscent of the impossible to kill serial slasher Jason Voorhees from the *Friday the 13<sup>th</sup>* film series...Random tax audits are coming back this fall, just in time for Halloween. Trick or treat!

Like the indiscriminate slasher Jason, The Wall Street Journal reports that the Internal Revenue Service is planning to resuscitate the morbid practice of randomly targeting thousands of taxpayers for audits, even when the agency has no reason to suspect them of wrongdoing. IRS officials expect the tax probes to provide fresh data to update the "top-secret" formulas the agency uses to help select which returns to audit.

What I find not only ironic but sad, is that on June 18<sup>th</sup> the Supreme Court ruled that passengers, like drivers, have a constitutional right to challenge the legality of police decisions to stop automobiles in which they are traveling. Bruce Brendlin was convicted of drug possession after a sheriff's deputy stopped a car in which he was a passenger. It turns out that Mr. Brendlin was wanted for a parole violation; however the deputy who ordered the car to pull over was not aware beforehand that Mr. Brendlin was in the vehicle. Mr. Brendlin appealed his conviction arguing that the drug evidence should be suppressed because it was found as the result of an illegal stop. The state conceded there was no basis stopping the car. Isn't the IRS a type of police force? If the men in blue cannot conduct unreasonable searches and seizures; why can the IRS?

*The Wall Street Journal* reported that the number of taxpayers affected, represents a small share of the 136 million tax returns expected. Many of the random audits "*will probably cover more ground than a regular audit*" as agency officials gather data for their tax research, says Mark Mazur, the IRS's Director of Research, Analysis and Statistics. What's more, many targeted taxpayers might want to hire an accountant or lawyer to represent them, which can cost thousands.

IRS officials and congressional investigators state that tax "noncompliance" is usually highest among people who work for themselves, who deal in large amounts of cash, who don't have taxes withheld from pay and whose income isn't reported separately to the IRS. S corporations are another area that is on the IRS chopping block. S corporations are the most common type of corporate entity, where profits and losses flow through to the individual owners. Capital gains taxes are also on the list. The IRS suspects the government is being denied billions of dollars in tax revenue because according to the IRS investors are inflating the cost basis.

If you find yourself randomly being chased by Jason Voorhees, whoops I mean the IRS, please contact us as soon as possible. Make sure you have all supporting documentation neatly organized and ready to go.

On a side note, when you get a letter from the IRS stating that your return was in error, do not assume that the IRS is correct. Taxpayers often just cut a check to Uncle Sam to make a problem disappear. However, often many notices from the IRS contain serious errors. The tax code is not just getting more and more complex every year for you, but for the IRS as well. The AMT is like a Rubik's Cube on steroids; not to mention the fact that Congress in their infinite wisdom waited until December 2006 to extend the life of several deductions that had expired at the end of 2005. Whoops, the tax forms already went to the printer thereby leaving off lines that specifically mentioned deductions for state and local taxes, higher-education tuition and fee's and educators' classroom expenses.

Source

[Supreme Court Rules I Favor of Wall Street in Antitrust Case](#) *The Wall Street Journal* Mark Anderson June 18, 2007

[The Next Audit Scare](#) *The Wall Street Journal* June 13, 2007

[IRS Could Be Wrong, So Check Returns](#) *The Wall Street Journal* May 23, 2007