(CIPs) to study perceived areas of noncompliance.

Jim Buttonow • Mar. 06, 2012

The IRS regularly conducts national, regional, and local compliance initiative projects (CIPs) to study perceived areas of noncompliance. The IRS uses the data from these projects to develop more comprehensive projects and allocate its audit resources in the areas showing significant noncompliance.

Below is part one of a two-part series of IRS alerts detailing IRS audit projects for individual Form 1040 filers, scheduled to be completed before the end of the government's fiscal year. Additional alerts will be provided during the next two months about CIPs for businesses and specialty taxes.

Travel, Meals and Entertainment

Taxpayers targeted: Schedule C filers with travel, meal and entertainment deductions.?Specifically:

Gross receipts greater than $10,000

- Travel, meal and entertainment deductions greater than total Schedule C income, and
- Meal and entertainment expenses less than $1,000

Notable information: The IRS has determined that this taxpayer segment is deducting personal travel, meal and entertainment expenses to reduce taxable income and conceal meals and entertainment under travel expenses to avoid the 50% limitation (IRC §274).

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Duplicate Interest Deduction Claimed on

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Employee Business Expenses

Taxpayers targeted: Form 1040 filers with employee business expense deductions of more than $50,000

Preliminary IRS results: The most common cases in this project are office audit cases for taxpayers with less than $200,000 in income who don't file Schedule C. The no-change rate was 5%, and the average adjustment was $11,250.

Notable information: The IRS will conduct office audits for this project.

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Most Productive Issues Per IRS Audit Results Data

Taxpayers targeted: Field and office audit issues with lowest no-change rates and highest adjustments. Specifically:

- Schedule A: Unreimbursed business expenses and real estate taxes
- Schedule C: meals and entertainment, travel, repairs and maintenance, utilities and business use of the home
- Schedule E: depreciation

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Residential Energy Property Credits (ARRA Provisions 1121 and 1122)

Taxpayers targeted: Taxpayers claiming residential energy credits on 2009 returns

Taxpayers targeted: Schedule C filers with gross receipts of more than $5 million and income of less than $200,000.

Notable information: With this project, the IRS is examining the legitimacy of techniques taxpayers use to significantly reduce their taxable income. Examiners will be instructed to conduct thorough income audits and consider Schedule C and related entities.

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National Office Construction Specialty Trades

Taxpayers targeted: Construction independent contractors who file Schedule C (self employed). Specific industries:

- Flooring
- Carpentry
- Drywall
- Plumbing
- Masonry
- Roofing
- Framing
- Painting
- Other foundation
- Residential building

Preliminary IRS results: Office and field audit results from Gulf states region office (average dollars per return):

- Flooring: $56,664
- Masonry: $62,622

- Plumbing: $214,961

Taxpayers targeted: Taxpayers reporting losses on Schedule C returns for consecutive tax years 2007, 2008 and 2009. Specifically:

- Gross receipts less than $20,000 and
- Losses of more than $20,000 above the gross receipts amount

Notable information: The IRS wants to identify and examine the returns of taxpayers who may be offsetting taxable income from activities they are not engaged in for profit.

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Not for Profit

Taxpayers targeted: Taxpayers reporting losses on Schedule C returns for consecutive tax years 2007, 2008 and 2009. Specifically:

- Gross receipts less than $20,000 and
- Losses of more than $20,000 above the gross receipts amount

Notable information: The IRS wants to identify and examine the returns of taxpayers who may be offsetting taxable income from activities they are not engaged in for profit.

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Passive Activity Loss Limitations: Real Estate

Taxpayers targeted: Individuals who file Schedule E with rental losses. Specifically:

- Deductions of more than $25,000 in rental real estate losses without any other

with rental losses. The IRS is using only office audit resources for this project.

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Jim Buttonow, CPA, is Vice President of Product Development and Cofounder of the tax technology company New River Innovation. Jim's professional mission is to apply emerging technology to problems faced by tax professionals after they file.

Jim is a CPA and former IRS Large Case Team Audit Coordinator. He worked at the IRS for 19 years. Since leaving the IRS, Jim has represented many clients before the IRS. At New River Innovation, Jim is the chief architect of Beyond415, an award-winning technology for tax practitioners to efficiently handle IRS issues, notices and audits. Through Beyond415, Jim also develops and presents CPE series on IRS practice and procedure for issues that arise after filing, such as audits, notices and discrepancies. Jim regularly speaks on compliance trends and post-filing practice efficiency strategies for CPA and accounting firms.

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