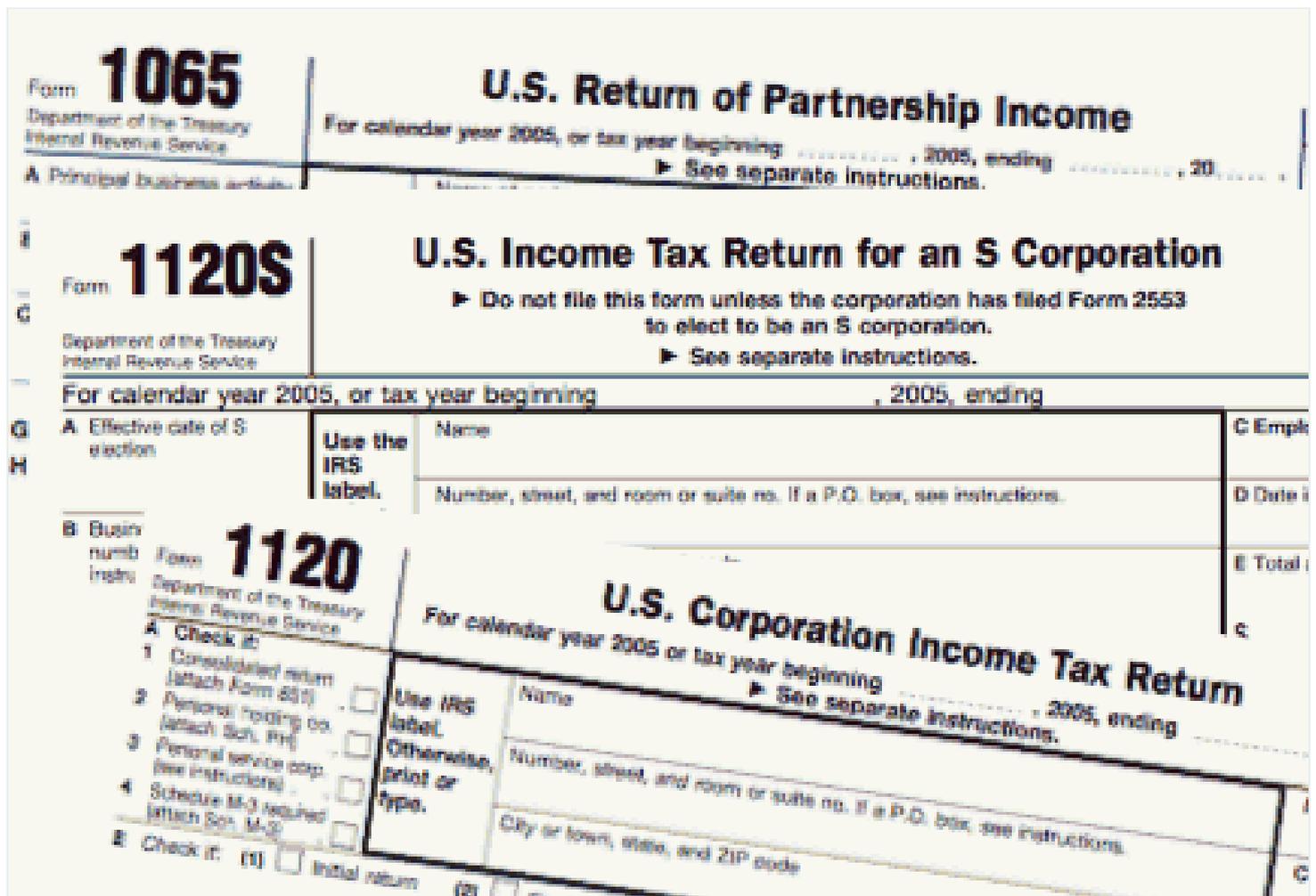


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coming year. When it comes to compliance, the IRS has increasingly focused on small business underreporting, which is responsible for 84% of the \$450 billion tax gap.

Jim Buttonow • Sep. 10, 2012



The IRS continually analyzes compliance levels for entities, issues and industries by conducting hundreds of compliance projects and initiatives each year. Leading up to the start of the government's fiscal year on Oct. 1, the IRS has announced emerging or significant areas that it will prioritize for the coming year. When it comes to compliance, the IRS has increasingly focused on small business underreporting, which is responsible for 84% of the \$450 billion tax gap. At national and regional tax

forums held this summer, the IRS projected small business areas where it will focus

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taxpayers as those who bring in a total positive income of more than \$200,000 a year. Total positive income includes all gross receipts and sources of income before expenses and deductions. Through 2013, the IRS will focus on taxpayers with a total positive income of more than \$1 million who file a Schedule C business return. Last year, the IRS audited 12.5% of all individuals with incomes of more than \$1 million – a significant increase from 2010, when the IRS audited 8.4% of these taxpayers.

3. **Form 1099-K matching.** The IRS announced that it will start Form 1099-K matching in late 2013. The IRS provided a reprieve from merchant card reporting on business returns for 2011 Schedule C and Forms 1065, 1120S and 1120; however, the IRS plans to change its approach after 2012 returns are filed. The IRS has indicated that it plans to pilot a business-matching program that can address a large amount of small business noncompliance.
4. **Credit for small business employee health insurance, under Section 45R.** This credit, first available on 2010 returns, is now coming under IRS scrutiny. The IRS will examine small business employers and tax exempts for compliance with Section 45R eligibility requirements.
5. **Abusive transactions, especially international transactions.** The IRS will continue to focus on the international tax gap. The IRS' third voluntary initiative for foreign bank account reporting is under way, and the IRS will be looking to aggressively pursue taxpayers who hide assets overseas. The IRS will also focus on offshore transactions for large and small businesses.
6. **Partnership returns for abusive transactions and unreported income.** This is a new area of emphasis for the IRS. Expect the IRS to target large loss partnerships and specific abuses that emerge from early findings in this project.
7. **S corporations, with an emphasis on losses in excess of basis and reasonable compensation paid to officers.** The IRS is interested in S corporation audits in which losses are taken in excess of basis on shareholder returns. The IRS will

review basis computations in these audits to determine whether tax preparers are

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Business to employ, an independent contractor, or an employee, or the IRS thinks there is significant noncompliance in worker classification and will continue to focus its field examination resources in this area.

Understand that your small business clients, and specifically those who fit any of the above eight issues, will be a focus for IRS audits in 2012 and 2013. A best practice is to proactively address these audit areas now with your small business clients, and prevent future problems through client education. Going forward, schedule frequent meetings so you can stay close to your small business clients and avoid audit surprises.

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### **About Jim Buttonow, CPA, CITP**

Jim is Vice President of Product Development and Co-founder of the tax technology company New River Innovation ([www.Beyond415.com](http://www.Beyond415.com)). He 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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