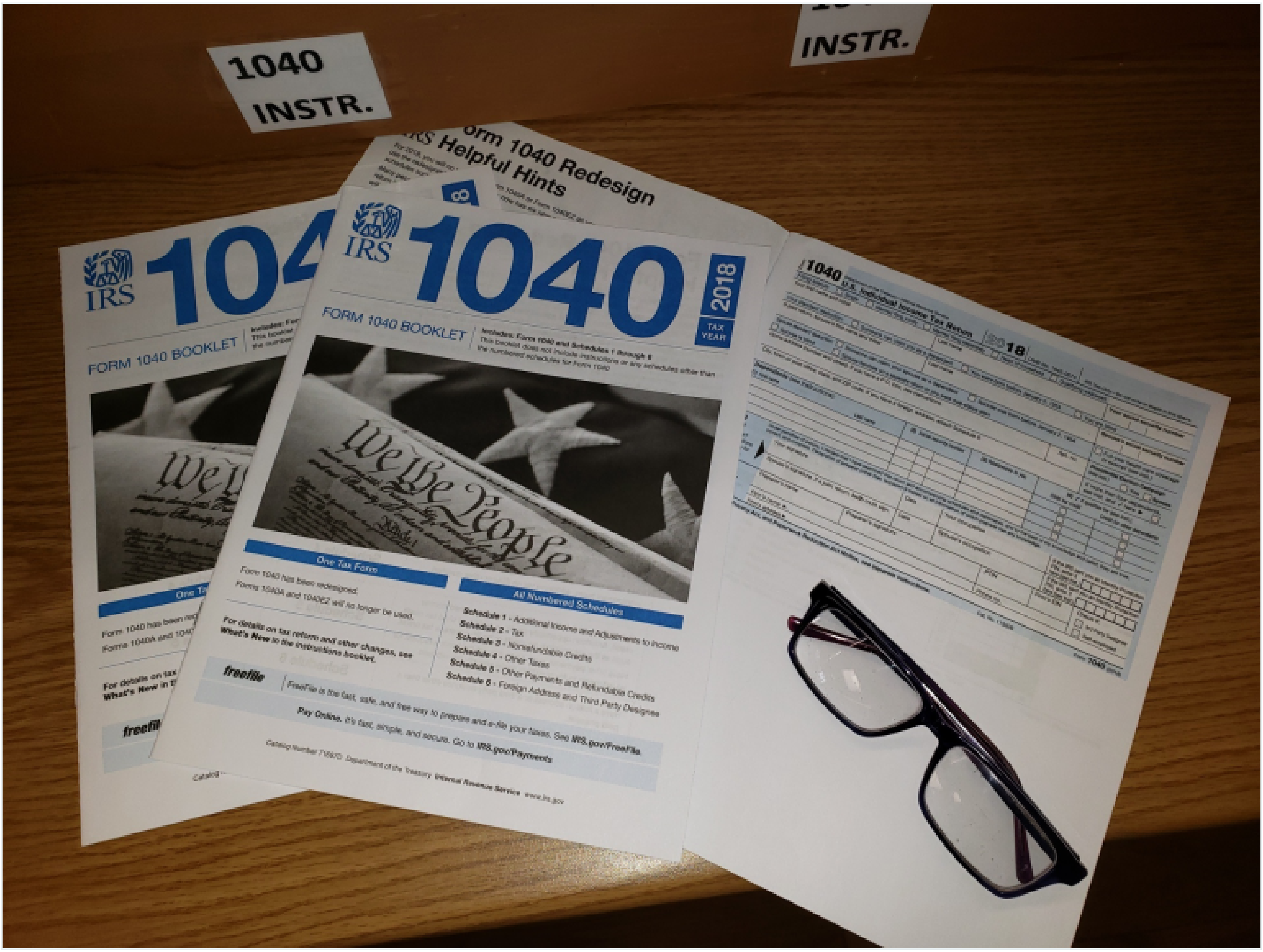
Jul. 06, 2020



The IRS is is getting back to work in earnest.

The nation's tax collection agency expects to be up-and-running at full capacity when the extended deadline for filing 2019 returns—July 15, 2020—finally rolls around. To coincide with this return, the IRS has announced two major enforcement initiatives designed to improve its sputtering cash flow during the COVID-19 pandemic.

Specifically, the IRS is taking dead aim at upper-income taxpayers who have failed to

Part of the problem is that high-income taxpayers are often independent contractors who don't have taxes regularly withheld from paychecks like employees. Thus, it is easier for them to slip through the cracks, despite having a significant amount of taxable income.

About half of the non-filers owe more than $50,000 in tax while close to 2,000 scofflaws are on the hook for more than $1 million. Besides the back taxes, wayward taxpayers will generally be hit with a 5% penalty for each month a payment is late, with a cap of 25%. In addition, they will be assessed a late payment penalty of .5% per month, up to a 25% maximum.

The IRS acknowledges that some taxpayers have good reason to miss a tax return deadline. They may have experienced a catastrophic life event or a severe economic downturn. Depending on the situation, the agency may waive the penalties and work out an installment plan.

But one missed return often leads to another and then inertia sets in. Once taxpayers develop a pattern of skipping these filings, they will continue the practice for years—even decades.

The IRS has little leniency for willful failures to file. In this case, it may even impose criminal sanctions that can result in up to five years in federal prison.

2. Pass-through entities and private foundations: As far back as March, U.S. Treasury Secretary Steven Mnuchin revealed that he had instructed IRS Commissioner Chuck Rettig to free up funds to audit high-income taxpayers. Now this directive is coming home to roost.

At the New York University Tax Controversy Forum on June 18, LB&I division Commissioner Douglas O'Donnell stated that the IRS will be sending letters about audit letters to certain high-income individuals from July 15 through

In particular, the IRS intends to go after foundations suspected of engaging in prohibited transactions such as "self-dealing." This includes making loans to disqualified individuals.

Practical advice: If you represent clients with targets on their backs, don't wait for a letter to show up in the mailbox. Be proactive about identifying problem areas and take steps now, when appropriate, to shore up your defenses. This will also give you time to discuss possible alternatives with clients.