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IRS TO EXPAND AUDITS TO PRIOR YEAR & SUBSEQUENT YEARS

By Victor Sy, CPA

The Treasury Inspector General for Tax Administration (TIGTA, an agency that oversees the IRS) instructed the IRS to **expand audits to prior and subsequent years**. This means that if IRS audits your income tax return for 2010, they **must expand the audit to your 2009 and 2011 as well**. Ouch!

The Treasury Department **conducted its own audit of the IRS** to determine whether tax compliance officers conducted required filing checks in accordance with IRS policies and procedures.

TIGTA stated that IRS must make every effort to ensure that audits are expanded to prior year returns, as well as subsequent year returns, when “substantial” taxes may be involved.

TIGTA evaluated single-year audits of individual returns for which the taxpayers involved agreed they understated their tax liabilities by more than \$4,400. Auditors scrutinized 100 such sample cases. Although **similar tax issues may have existed on prior and/or subsequent year returns**, the audits were **not expanded** to those returns in 48 of the 100 sample cases. As a consequence, opportunities may have been missed to address the noncompliance that contributes to the tax gap and promote tax system fairness among the vast majority of taxpayers who properly report and pay their taxes year in and year out.

IRS has estimated that \$197 billion of the \$345 billion tax gap is attributable to individuals underreporting their income tax liabilities.

TIGTA identified **three factors why the IRS may not** have expanded audits:

1. The agency “strives to keep its audit inventories free of old tax year returns.”
2. Tax compliance officers do not seem to be taking full advantage of available internal sources of information when conducting required filing checks.
3. Third, there is inconsistent accountability regarding the quality of filing checks by tax compliance officers.