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INSPECTOR GENERAL INSTRUCTS IRS TO AUDIT MORE RENTALS

By Victor Sy, CPA

The Treasury Inspector General for Tax Administration (TIGTA) that oversees the IRS instructed the IRS to perform **more audits** of individual tax returns that report losses from **rental real estate** activity. The rationale: TIGTA found at least 53% of individual taxpayers with rental real estate activity for tax year 2001 **misreported** their rental real estate activity. That misreporting resulted in an estimated **\$12 billion of net misreported income**. And yes, the government needs funds to balance the federal budget.

The Treasury Inspector General conducted its own audit of IRS audit policies to recommend ways to assist in the identification, selection, and examination of tax returns with rental real estate activity. During fiscal years 2008 and 2009, IRS's rental real estate Compliance Initiative Program examined a small percentage of the 318,000 audits conducted by revenue agents and tax compliance officers. Auditors projected that if the agency **increased** the percentage of rental real estate tax returns it examined, **potential tax assessments could grow by \$27 million over a five-year period**.

Inspector General J. Russell George stated that given the magnitude of underreporting in our voluntary system of tax compliance, even small improvements in the IRS's examination of tax returns with rental real estate activity could increase taxpayer compliance and generate substantial additional revenue to the federal government, helping **reduce the tax gap**.