

Important Tax Info



Ilana David-Klein
October 2008

When you were a kid, did your mother or father ever call you and let you know they “know” you did something wrong? Did they, then, give you an opportunity to confess and make things right?

Chances are you were standing there wondering, trying to match wit with a powerful entity that usually knows everything. You were wondering if they know all you have done wrong – breaking the vase, spilling the juice on the carpet, “forgetting” to bring in a note from school, etc. But did they know it all? If you confess to everything and they just know about some?

Well, the IRS is now taking over that Mom/Dad role. Until now, when IRS found a discrepancy regarding a taxpayer’s reported income or expense, it would send out a notice called CP2000 and show where the differences were. If the taxpayer agreed, additional tax, interest and sometimes penalties would be paid. If taxpayer did not agree – a satisfactory explanation would have to be provided to the IRS.

Starting October 2008, IRS will issue CP2057 requesting that the taxpayer review his/her return one more time to make sure there is no discrepancy. IRS is putting the burden on the taxpayer.

The push is part of the IRS's desire to narrow the so-called tax gap, or the amount of uncollected taxes. Some tax experts view the new notices as helpful

reminders, while others say the notices will rattle many taxpayers. I can see a situation where a taxpayer might want to report income that is not taxable, or remove a legitimate deduction, just to get the IRS off their back.

The IRS will scrutinize the following year's return to see that similar problems don't crop up. Roughly 31,000 of the CP 2057 letters will go out in the fall, and the IRS will expand their use depending on how effective they are in getting people to correct their own returns.

The new notice is automatically generated using an IRS system of computer-matching returns with 1099, W2, K1 and other documents -- a system the IRS also uses for the notices it currently sends.

The IRS hopes that the automated nature of the notices will allow it to run the program at low cost. It is designating only a tiny portion of its staff to work on it, with the aim that taxpayers will be able to resolve underreporting issues without having to correspond extensively with the IRS.

Should you get CP2057, I urge you to see a tax professional immediately. Remember, if your return was prepared properly, you should not have to amend it. Be aware that even when IRS or New York State proposes specific changes, they are not always correct.

Bring your return to a CPA or an Enrolled Agent for a review and assistance. Both ARE highly trained in handling these issues and can practice before the IRS.

Ilana David-Klein, EA
TaxPreparer.li