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IRS and TRAC Dispute over Tax Audits for Big Companies

On Sunday, the Transactional Records Access Clearinghouse (TRAC), a non-partisan group associated with Syracuse University, released a report claiming that the IRS has not been auditing large corporations as much as they used to be. Last year, the IRS audited only one out of four of the companies with at least \$250 million in assets, the lowest proportion in more than 20 years.

TRAC suggests this minimal percentage of auditing among the 'big boys' of business points to a perverse quota system where the IRS focuses more on small and medium sized companies in their auditing efforts. The group expressed concern that this action of avoiding the large corporations could cost the country a lot of lost revenue as it has been shown that larger companies typically pay much more in back taxes and under-reported taxes than their smaller counterparts.

TRAC's findings were swiftly rebutted by the IRS who have for many years disputed TRAC's methods of coming up with their conclusions. Among other things, the IRS put forth that the report by TRAC does not take into account the number of man hours the IRS put into working with companies before they file their tax returns to ensure that their returns do not contain underpayments or inaccuracies. The IRS points out that the average amount of money per hour auditors have recovered in 2009 was \$9,704. This represented a \$2,776 rise compared to the corresponding rate of \$6,928 in 2005.

But in TRAC's report, since 2005, the number of hours the IRS has spent auditing large corporations fell by 33% whereas the number of hours spent auditing small companies rose by 30.4% and that for mid-sized companies grew by 12.6%. The same pattern shows in the number of audits. Since 2005, the number of IRS audits of large companies fell from 4,693 to 3,675 cases which represents a decrease of 21.7%.

But the IRS contends that 2005 is not a suitable year of reference because it was the year when the IRS conducted a major drive to close all audit cases from previous years. As a result, there was a spike in the number of audits conducted in 2005. Another point brought up by the IRS was that in 2009, it had audited 100% of all companies with assets over \$20 billion and 50% of all companies having assets between \$5 and \$20 billion.

At the beginning of this year, IRS commissioner Doug Shulman announced a new requirement for all major corporations to include a detailed statement in their tax return describing any potentially questionable deductions. This is to enable IRS auditors to focus on areas where they are most likely to recover an underpayment.

Darrin T. Mish is a veteran, nationally recognized tax attorney who has focused on providing IRS help to taxpayers for over a decade. He regularly travels the country training other attorneys, CPAs and enrolled agents on how to handle their toughest cases with the IRS. He is highly ranked among the top attorneys in the country, with an AV rating from Martindale-Hubbell and a perfect 10 on Avvo.com. Martindale-Hubbell has also honored him with a listing in their Bar Register of Preeminent Lawyers. He is a member of the American Society of IRS Problem Solvers and the Tax Freedom Institute. With clients on every continent but Antarctica, he has what it takes to solve your IRS problems no matter where you live in the world. If you would like more information about his practice and how he can help you, please call his office at (813) 229-7100 or toll free at 1-888-GET-MISH.