

# IRS Begins Crackdown of Small Businesses

by Joseph M. Donegan on September 13, 2013

Small businesses may face increased scrutiny from the Internal Revenue Service, which recently announced that it believes small companies may be under-reporting cash payments.

Resulting from the possibility of many small business audits in the future, the agency recently sent out 20,000 letters since fall 2012, notifying owners of "possible income under-reporting." The IRS said it sent out these letters after examining the credit card transactions of a large number of small entities across the country. After its analysis, the tax agency said it is now trying to identify companies that receive an "unusually high portion" of reported sales through credit card transactions and may be under-reporting cash payments, CNN Money reports. The IRS is essentially targeting companies whose ratio of credit card to cash seems unusual for their industry, the news source added. The possible impending small business audits has owners and entities worried

"You received one or more of these letters and notices because you may have under-reported your gross receipts," said the agency. "This is based on your tax return and Form(s) 1099-K, Payment/Merchant Cards and Third Party Network Transactions that show an unusually high portion of receipts from card payments and other Form 1099-K reportable transactions."

Business owners who receive the notices are typically given 30 days to respond in the way of a written explanation. However, many company owners are unsure of how to respond to the alleged tax law violations, with many asserting that they have accurately reported all income. In addition, many business owners argue that the IRS cannot accurately ascertain whether businesses are in compliance with tax law simply by relying upon industry averages, rather than concrete evidence of wrongdoing.

However, it is unclear if the IRS will seek out new barometers to measure compliance as it attempts to close the multibillion-dollar tax gap, \$140 billion of which is attributed to noncompliance by small businesses.