

Newsletter

SEPTEMBER 2020

Freddi Eberhart & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

This Month:

September 7

- Labor Day

September 15

- Filing deadline for 2019 S corporation and partnership tax returns that received an extension
- 3rd quarter 2020 estimated income tax is due (individuals, corporations, trusts & estates)

October 1

- SIMPLE IRA plan establishment due

Fall is right around the corner! As summer is winding down, the IRS wants you to be aware of common scams being encountered during the pandemic. Also included is what triggers an IRS Audit and what to do if you are being Audited.

Please call if you would like to discuss how this information could impact your situation. If you know someone who can benefit from this newsletter, feel free to send it to them.

IRS Announces Common Tax Scams

The IRS recently announced its 2020 edition of its annual *Dirty Dozen* list of tax scams with a special emphasis on aggressive and evolving schemes related to COVID-19 tax relief, including Economic Impact Payments. Here are six of the more common scams.

Phishing. Phishing refers to potential fake emails or websites looking to steal your personal information. Remember the IRS will never initiate contact with you via email about an outstanding tax bill, refund or Economic Impact Payment.

What you can do. *If you receive any suspicious phishing emails, forward them to phishing@irs.gov.*

~ Continued on Page 2 ~



Newsletter

SEPTEMBER 2020 — PAGE 2

IRS Announces Common Tax Scams (Cont'd)

Fake charities. Criminals frequently exploit natural disasters and other crisis situations such as this year's pandemic by setting up fake charities to steal donations. Fraudulent schemes normally start with unsolicited contact by telephone, text, social media, e-mail or even in person.

***What you can do.** Verify the charity's existence by searching for it using the IRS's search tool.*

Threatening phone calls from IRS impersonators. IRS impersonation scams include phone calls threatening arrest, deportation or license revocation if you don't pay a bogus tax bill. The IRS will never demand immediate payment or ask for financial information over the phone.

***What you can do.** If you received a phone call, contact your local IRS office to verify whether you owe any taxes.*

Social media scams. A scammer will use social media platforms such as Facebook and Twitter to obtain personal information from you, then use that information to trick you into providing them with confidential information. For example, the scammer could impersonate a family member, friend or co-worker in an attempt to obtain financial information.

***What you can do.** Be careful of publishing confidential information on social media. Verify the identity of any person or organization that asks you for confidential information.*

Economic impact payment or tax refund theft. Criminals file false tax returns or supply other bogus information to the IRS to divert refunds or Economic Impact Payments to wrong addresses or bank accounts.

***What you can do.** Contact a qualified professional to help walk you through how to report identity theft to the IRS.*

Senior fraud. Senior citizens have become more comfortable with various technologies such as social media. This has opened the door for scammers to take advantage of senior citizens by using fake emails, text messages and fake websites to steal personal information.

***What you can do.** Be the eyes and ears for the senior citizens you come in contact with. According to the IRS, anecdotal evidence indicates that senior fraud decreases substantially when a trusted friend or family member takes an interest in the senior's affairs.*

Will Your Tax Return be Audited?

Few things are more unnerving than having your tax return selected for an IRS audit. The IRS uses that "audit anxiety" to help keep taxpayers honest on their tax returns.

~ Continued on Page 3 ~



Newsletter

SEPTEMBER 2020 — PAGE 3

Will Your Tax Return be Audited? (Cont'd)

DIF scores count

The IRS evaluates tax returns based on their "DIF" scores, a set of IRS formulas known as the "Discriminate Function System." About three-quarters of all returns audited are selected by the DIF computer, which compares deductions, credits, and exemptions with the norms for taxpayers in each income bracket.

While these formulas are kept very secret by the IRS, you can count on having a higher audit probability if you fall into certain categories or report certain things on your tax return.

What interests the IRS?

Some higher risk areas include the following -

1. **Tax protests.** Both the IRS and tax courts are getting fed up with what they consider frivolous tax protests. If you file a return stating that you owe no tax because the dollar is worthless or make some other such protest, you'll probably be audited.
2. **High income.** Because auditing higher-income taxpayers is likely to produce more additional tax revenue than auditing lower-income taxpayers, this category is targeted by the IRS.
3. **Certain occupations.** Taxpayers whose occupations produce cash income, such as taxi drivers and waiters, run a higher risk of being audited. Self-employed individuals, particularly independent contractors, are IRS targets for the same reason; they are more likely to have unreported cash income.
4. **No preparer or a problem preparer.** If you have a complex return and prepared it yourself, or if your return was prepared by someone on the IRS's problem-preparer list, you are more likely to be audited.
5. **Certain deductions.** The IRS has found it profitable to audit returns that claim office-in-the-home deductions, travel and entertainment deductions, and certain other write-offs where they feel taxpayers stretch the truth.
6. **Related party transactions.** Taxpayers who involve family members in their financial operations are more likely to be scrutinized by the IRS. Paying wages to your children, lending money to relatives, splitting income among family members, or running a family business will make the IRS more interested in your returns.

~ Continued on Page 4 ~



Newsletter

SEPTEMBER 2020 — PAGE 4

Will Your Tax Return be Audited? (Cont'd)

7. **Abusive tax shelters and offshore accounts.** In the last few years the Internal Revenue Service has detected a proliferation of abusive trust tax evasion schemes. It also believes some people are using offshore credit cards to evade paying U.S. income taxes. The Service intends to expand its efforts to crack down on abuses in these areas.

Your best audit defense

Unless there is suspicion of fraud or substantial understatement of income, the IRS has three years from the due date of your return to initiate an audit. Typically, most returns are selected within two years of their filing date.

The best defense in an audit is a two-part strategy:

1. Have supporting documentation for all deductions and credits.
2. See your accountant immediately upon notification that you're being audited.

A professional can put your mind at ease, find the information that the IRS wants more quickly than you can, and very likely will save you money in the long run by getting a faster and more favorable conclusion to the audit.

I'm Being Audited!

Less than 2% of over 145 million individual tax returns filed will be selected for audit. The percentage increases for higher income groups and tax returns in areas of specific interest to the IRS. If you should receive notice from the IRS of an impending audit please remember:

- IRS computers usually flag the tax returns for audits. The vast majority of them are routine.
- Because of the flagging process, your audit will usually focus on one to three categories of your tax return.
- Audits do not automatically mean something is wrong. It is possible to receive a "no change" or even an additional refund as an outcome of an audit.

~ Continued on Page 5 ~



Newsletter

SEPTEMBER 2020 —PAGE 5

I'm Being Audited! (Cont'd)

What to do if you are audited.

- **Don't panic.** Open all correspondence and make sure you respond to all requested information in a timely fashion.
- **Keep good records.** Be prepared to support your tax return details. Do this as you prepare your tax records each year. This is the one most important things you can do.
- **Ask for help.** You are not a tax professional, the IRS auditor is. So get help and do so as soon as possible after receiving your notice. Let professionals deal with the IRS as much as possible.
- **The best defense is a good offense.** Identify the information in question and prepare as much as possible to defend your tax return prior to any meetings with auditors.
- **Answer questions, do not volunteer information.** Answer only the questions under review. It helps both you and the often over-worked auditor. Avoid attending meetings with an auditor on your own.
- **Do not make it personal.** Remember to be polite and avoid making editorial comments about anything other than what is being asked.

If you feel you are being treated unfairly remember there are numerous means within the system to help you, from talking to a supervisor to using the IRS taxpayer advocate service.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.