

Monthly Newsletter

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The Chances of IRS Audits are Down but You Should Still Be Prepared

The IRS just released its audit statistics for the 2018 fiscal year, and fewer taxpayers had their returns examined as compared with prior years. However, even though a small percentage of tax returns are being chosen for audit these days, that will be little consolation if yours is one of them.

Latest statistics

Overall, just 0.59% of individual tax returns were audited in 2018, as compared with 0.62% in 2017. This was the lowest percentage of audits conducted since 2002.

However, as in the past, those with very high incomes face greater odds. For example, in 2018, 2.21% of taxpayers with adjusted gross incomes (AGIs) of between \$1 million and \$5 million were audited (down from 3.52% in 2017).

The richest taxpayers, those with AGIs of \$10 million and more, experienced a steep decline in audits. In 2018, 6.66% of their returns were audited, compared with 14.52% in 2017.

Surviving an audit

Even though fewer audits are being performed, the IRS will still examine thousands of returns this year. With proper planning, you should fare well even if you're one of the unlucky ones.

The easiest way to survive an IRS examination is to prepare in advance. On an ongoing basis, you should systematically maintain documentation — invoices, bills, canceled checks, receipts, or other proof — for all items reported on your tax returns.

Just because a return is selected for audit doesn't mean that an error was made. Some returns are randomly selected based on statistical formulas. For example, IRS computers compare income and deductions on returns with what other taxpayers report. If an individual deducts a charitable contribution that's significantly higher than what others with similar incomes report, the IRS may want to know why.

Returns can also be selected when they involve issues or transactions with other taxpayers who were previously selected for audit, such as business partners or investors.

The government generally has three years within which to conduct an audit, and often the exam won't begin until a year or more after you file your return.

More audit details

The scope of an audit depends on the tax return's complexity. A return reflecting business or real estate income and expenses is likely to take longer to examine than a return with only salary income.

An audit can be conducted by mail or through an in-person interview and review of records. The interview may be conducted at an IRS office or may be a "field audit" at the taxpayer's home, business, or accountant's office.

Important: Even if your return is audited, an IRS examination may be nothing to lose sleep over. In many cases, the IRS asks for proof of certain items and routinely "closes" the audit after the documentation is presented.

Representation

It's advisable to have a tax professional represent you at an audit. A tax pro knows what issues the IRS is likely to scrutinize and can prepare accordingly. In addition, a professional knows that in many instances IRS auditors will take a position (for example, to disallow deduction of a certain expense) even though courts and other guidance have expressed a contrary opinion on the issue. Because pros can point to the proper authority, the IRS may be forced to throw in the towel.

If you receive an IRS audit letter or simply want to improve your recordkeeping, we're here to assist you. Contact us to discuss this or any other aspect of your taxes.

Update Your Software Now

We secure our valuables – our wallets, keys, and homes. We know that, if left unsecured, they can easily be a target for criminals. So it makes sense to think the same way about the information stored on all our devices.

Computers, tablets, phones and other personal devices hold your emails and your financial and tax documents (with your Social Security numbers). Criminals who get access to this valuable information can commit identity theft, put harmful software on your devices, or both.

What's one easy way to help protect all of this sensitive information? Update your software regularly, and as soon as possible when a newer version comes out. What's an even easier way? Set the updates to happen automatically. Don't ignore reminders to update. Criminals look to exploit vulnerabilities before the software companies can fix it. Delaying gives hackers time to access your information – even when a patch is out there to lock them out.

So what software should you be updating?

1. Security software. Whether you use antivirus or firewall programs that were pre-installed on your device or that you bought on your own, make sure they're up to date.
2. Operating system software. Your operating system could be Windows, Apple OS, etc. If you're not sure how to update your operating system, go to the website of your device manufacturer for help.
3. Internet browsers and apps. Both are access points for criminals to enter your devices, so it's important to keep them secure.

Source: Consumer Education Specialist, FTC

Effective Tax Planning Starts Now

With summertime activities in full swing, tax planning is probably not on the top of your to-do list. But putting it off creates a problem at the end of the year when there's little time for changes to take effect.

If you take the time to plan now, you'll have six months for your actions to make a difference on your 2019 tax return. Here are some ideas to get you started.

1. **Know your upcoming tax breaks.** Pull out your 2018 tax return and take a look at your income, deductions and credits. Ask yourself whether all these breaks will be available again this year. For example: Any changes to your tax situation will make planning now much more important.
 - a. Are you expecting more income that will bump you to a higher tax rate?
 - b. Will increased income cause a benefit to phase out?
 - c. Will any of your children outgrow a tax credit?
2. **Make tax-wise investment decisions.** Have some loser stocks you were hoping would rebound? If the prospects for revival aren't great, and you've owned them for less than one year (short-term), selling them now before they change to long-term stocks can offset up to \$3,000 in ordinary income this year. Conversely, appreciated stocks held longer than one year may be candidates for potential charitable contributions or possible choices to optimize your taxes with proper planning.
3. **Adjust your retirement plan contributions.** Are you still making contributions based on last year's limits? Maximum savings amounts increase for retirement plans in 2019. You can contribute up to \$13,000 to a SIMPLE IRA, up to \$19,000 to a 401(k) and up to \$6,000 to a traditional or Roth IRA. Remember to add catch-up contributions if you'll be 50 by the end of December!
4. **Plan for upcoming college expenses.** With the school year around the corner, understanding the various tax breaks for college expenses before you start doling out your cash for post-secondary education will ensure the maximum tax savings. There are two tax credits available, the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit. Plus there are tax benefits for student loan interest and Coverdell Savings accounts. Add 529 college savings plans, and you quickly realize an educational tax strategy is best established early in the year.
5. **Add some business to your summer vacation.** If you own a business, you may be able to deduct some of your travel expenses as a business expense. To qualify, the primary reason for your trip must be business-related. Keep detailed records of where and when you work, plus get receipts for all ordinary and necessary expenses.

Great tax planning is a year-round process, but it's especially effective at midyear. Making time now not only helps reduce your taxes, it puts you in control of your entire financial situation.

How to Protect Your Social Security Number

Very few things in life can create a higher degree of stress than having your Social Security Number (SSN) stolen. This is because, unlike other forms of ID, your SSN is virtually permanent. While most instances of SSN theft are outside your control, there are some things that you can do to minimize the risk of this ever happening to you.

- **Never carry your card.** Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.
- **Know who needs it.** As identity theft continues to evolve, there are fewer who really need to know your SSN. Here is that list:
 - **The government.** The federal and state governments use this number to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.

- **Your employer.** The SSN is used to keep track of your wages and withholdings. It also is used to prove citizenship and to contribute to your Social Security and Medicare accounts.
- **Certain financial institutions.** Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, report your credit history or confirm your identity. In no case should you be required to confirm more than the last four digits of your number.
- **Challenge all other requests.** Many other vendors may ask for your SSN but having it may not be essential. The most common requests come from health care providers and insurance companies, but requests can also come from subscription services when setting up a new account. When asked on a form for your number, leave it blank. If your supplier really needs it, they will ask you for it. This allows you to challenge their request.
- **Destroy and distort documents.** Shred any documents that have your number listed. When providing copies of your tax return to anyone, distort or cover your SSN. Remember, your number is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check, and replace the first five digits with Xs.
- **Keep your scammer alert on high.** Never give out any part of the number over the phone or via email. Do not even confirm your SSN to someone who happens to read it back to you on the phone. If this happens to you, file a police report and report the theft to the IRS and Federal Trade Commission.
- **Proactively check for use.** Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your account. Remember, everyone is entitled to a free credit report once a year. You can obtain yours on the Annual Credit Report website.

Replacing a stolen SSN is not only hard to do, it can create many problems. Your best defense is to stop the theft before it happens.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.

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