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IRS Crackdown on Tax Crime

The extended deadline to participate in the IRS' Offshore Voluntary Disclosure Initiative (OVDI) has just passed. This program was similar to the one held two years ago in which about 15,000 taxpayers stepped forward to declare their foreign taxable assets in exchange for a lightened punishment and waiver of criminal charges. If you have been hiding taxable money in overseas bank accounts or other forms of financial instruments, you should have declared them in the OVDI.

Failure to participate in the OVDI means one of two things. You hope the long arm of the law fails to reach you and you get away with it for another year. Alternatively, you get caught and the consequences are dire indeed. Getting caught does not necessarily mean you are intentionally evading taxes. Yours may be a case of a frivolous tax position. According to the tax code, if the IRS deems your tax position as frivolous, it may mean a 20% accuracy penalty and a 75% civil fraud penalty. If you take a position seen as frivolous on an amended return asking for money back, you may also be liable for a 20% erroneous claim for refund penalty. In addition, if you are late in filing your returns including frivolous positions, the usual penalties for fraudulent failure to timely file your income tax return can be increased threefold up to 75%.

Besides these non-criminal transgressions, there are the criminal ones that range from hiding taxable assets overseas to making false claims for refunds. The IRS has a division called the Criminal Investigation Division (CID), the watchdog that sniffs out tax criminals like a hound.

The number of fraudulent cases the CID investigated rose by 14% year on year to 4,706 in fiscal 2010. At the same time, the number of cases that the IRS feels should be brought to court also increased by 18% while the corresponding number of convictions went up by 4%.

According to the recently released report from the Treasury Inspector General for Tax Administration (TIGTA), although the number of special agents did not rise at 2,752 agents in 2010, the CID cut down its average investigation time to 365 days per case in 2010 compared to 401 days in 2009, an improvement of 8.8%. Other areas of improvement include increasing its conviction rate by 6.9% from 2009 to 2010 and increasing its legal source tax investigation initiations by 12.3%.

The TIGTA said the improvements were due to better training for special agents, and better collaboration with other IRS divisions which has helped investigators identify more frauds cases. The CID's goal was to initiate 4,000 subject investigations but it managed to initiate 4,706 cases instead.