

# Report: IRS to Increase Audits of Prior- and Subsequent-Year Tax Returns

by Joseph M. Donegan on September 25, 2013

The Internal Revenue Service announced its plans to conduct more correspondence audits of those with prior- and subsequent-year tax returns of non-compliant income tax filing, according to a new government report.

The Treasury Inspector General for Tax Administration published new data that reveals the federal tax agency's plans to expand the number of correspondence audits currently carried out, namely because these types of audits provide it with a cost-effective way of determining whether high net-worth individuals or business owners are underreporting their taxes or committing other tax law violations. The report, which specifically examined the audit process in the IRS's Small Business/Self-Employed Division, noted that filing checks may be strengthened in the coming years.

These checks help the agency determine whether the same pattern of noncompliance discovered on an audited tax return is also present on the prior- and subsequent-year tax returns, Accounting Today notes. The results of this analysis helps the federal tax agency determine whether prior and future returns should be audited as well. As a result of the report, which urged the IRS to develop new strategies for strengthening the audit process, the agency plans to implement new plans for strengthening correspondence audits.

"We agree that, in certain circumstances, it makes sense to audit the prior- and/or subsequent-year return; however, we need to consider various factors when making that determination," wrote Ruth Perez of the IRS's Small Business/Self-Employed Division, in response to the report, according to Accounting Today.

For instance, Perez noted that the statute of limitations, cost-effectiveness of proposed procedures, and the potential to recover significant taxes will all play a role in how the IRS chooses to proceed.

"We agree that there may be some measurable benefit derived from your recommendations," said Perez. "However, we believe the outcome measure, as calculated, does not take into account the impact of our model of working the next best case or our procedures to ensure we only work cases with sufficient time on the statute of limitations for assessment."