



Tax Tips You Can Use Nov 2008

NEW IRS PROGRAM – THE “SOFT NOTICE” SELF AUDIT

By Kathleen Crawford, EA

There is a new program being implemented by the IRS in October of 2008. Although it will only affect 31,000 taxpayers across the United States this year, it is important for all taxpayers to be aware of this new initiative. The new program is called the CP2057 or “Soft Notice” program. The articles on the basics of the tax return will continue after this timely information is complete.

Congress has given the IRS a goal of reducing the tax gap. If you will recall, the tax gap is the difference between the tax owed to the government and the amount that is actually collected. One method the IRS uses to find unpaid taxes is computer matching of tax returns and information documents. That big IRS computer takes all of the W-2's, 1099's and 1098's filed by banks, employers and others and compares them to individual tax returns. If mismatches are found, the tax return is flagged for review and correction.

Currently there are about 15 million tax returns with mismatches. The IRS is staffed to work on about 4 million of these. The other 11 million are just not handled. They become part of the tax gap that is not even pursued by the IRS, although many of these are tiny amounts or correct returns that do not fit the computer comparisons. To address some of the millions of returns, the IRS has a pilot “Soft Notice” program.

If a return is flagged with a mismatch and not processed by an IRS employee, the computer will send a notice asking the taxpayer to verify the income amount and amend the return to correct the issue. The notice will have a number of CP2057 in the upper right hand corner. No actual correspondence with the IRS is required beyond the amended return. As of this writing, the IRS will not directly follow up on the notice. That is why it is called a soft notice. However that is not the end of the story.

A taxpayer who ignores the notice and has another mismatch in the following year will get special attention from the IRS- never a good thing. People who are habitual offenders are likely to have multiple years to resolve.

What concerns tax preparers is what to do for people whose returns are correct but do not fit the comparison. The IRS plans to include a telephone number for questions, but has told preparers that they really do not want responses. At this point, the IRS says that they just want taxpayers not to repeat the “mistake”.

Any taxpayer who gets a CP2057 should review their self-prepared return or call their tax preparer. If there is a mistake, the return should be amended. If there is no mistake, the next year's return should be prepared to ensure that the method used does not create another false mismatch flagged by the IRS computer.

In the initial test, the IRS found that many people amended their returns and over two thirds had no repeat of the problem. If this large pilot program has similar results, then the program to be expanded to include millions of returns. It will add self-audit to voluntary compliance in our tax system.

The Jacksonville Tax Lady, LLC can be reached at 541-899-7926 and is located in beautiful, historic Jacksonville at 610 N. Fifth Street across from the Pony Espresso.

The fine print is that this article is for information only. Please call Kathy or a tax professional for questions about your individual tax situation. The Jacksonville Tax Lady can be reached at 541-899-7926 or at 610 North Fifth Street.

