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Richie Rich Tax Audits

Leona Helmsley was already famous when she uttered the now immortal words: “[Only the little people pay taxes.](#)” Still, this ushered the Queen of Mean into the ranks of tax history in ways neither she nor the maid who reported the quip could have contemplated. Mrs. Mean would later achieve additional notoriety in the estate planning department with her \$12 million bequest to her beloved dog, a Maltese named Trouble. See [Helmsley’s Dog Gets \\$12 Million in Will.](#)

The hotel baroness’ forays into tax planning were most famously of the sales tax and business versus personal variety. Nevertheless, her little people quote surely sums up what many people feel about the rich: their rules are different. The IRS may have taken a page from Mrs. Helmsley’s book in setting up its new Global High Wealth Industry Group. See [‘Audits From Hell’ Target Rich.](#) Some now call this “The Wealth Squad,” but I like to call it “The Rich Squad.”

The Rich Squad is just getting started, but if you’re rich (more about what that might mean below), start getting your ducks in a row. Otherwise you too could end up with a Maltese named Trouble. Keep good documents and records, since if you ever have to go down this road much of the audit process will be providing copious copies of just about everything.

How Rich is Rich? This may be the question of the ages, right up there with the meaning of life, but no one seems to be saying just how rich you have to be to get targeted by The Rich Squad. Still, there are some figures

available. The Rich Squad is part of the IRS's [Large Business and International Division](#).

That generally means more than \$10 million in assets. Assets and income are not the same, of course. A business might have \$10 million plus in assets, but only a tiny fraction of that in annual income. That applies to individuals too.

Judging from the other units of business the IRS's [Large Business and International Division](#) monitors, the assumption is clearly that The Rich Squad is not going to be dealing primarily (if at all) with people who simply have a large [Form 1040](#) and nothing more. That's not their focus. In fact, there's a reason The Rich Squad germinated in the fertile soil of the IRS's Large Business and International Division.

They are adept at dealing with the complex business and investment entity structures that wealthy people so often use. For reasons of tax law, liability protection, hedging investment risk, anonymity, and succession planning, most wealthy people don't put all their eggs in one basket. The Rich Squad audit, therefore, would logically take into account the range of assets and entities across the family group.

Most observers and practitioners suggest that this program is still in its startup phase. Yet of the details that have emerged so far, some are very clear. The written questions and paperwork required are extraordinary. See [IRS High-Wealth Industry Group Evaluation of Wealth Squad IDR](#). The IRS commonly issues Information Document Requests, usually abbreviated to "IDRs" by tax professionals.

If you get an IRS IDR you are not required by law to respond. However, you should always respond. If you don't, you will usually end up with a subpoena so it's foolish not to consider them with care. Usually that means having tax professionals help you. In the case of a Rich Squad audit, that conclusion is even more obvious, and you should probably seek the assistance of tax attorneys rather than accountants since attorneys have the added benefit of attorney-client privilege.

Wherever you fit on the wealth scale, you should be aware that the IRS is doing more to troll for compliance glitches with wealthy taxpayers. You

should also be aware that when it comes to wealthy people and the IRS, to quote [Casablanca](#), “I think this is the beginning of a beautiful friendship.”

For more, see:

[IRS ‘Wealth Squads’ On The Way](#)

[Is the New IRS Wealth Squad Coming for You?](#)

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