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# IRS Targets Thousands Of Small Businesses For Extra Scrutiny

Is the best defense a good offense? Maybe, and the IRS is still under scrutiny for targeting. See [Hate The IRS? You'll Love These Laws](#). The tax agency is doing some targeting of its own, fingering at least 20,000 small businesses. And that number will grow.

The scrutiny on this group and in this way is a little frightening. Small business people across America are receiving IRS notices. More will be coming. The IRS gathers data from many third parties—including credit card companies—to see if you picked up every nickel of income. See [Small Business in IRS Sights](#).

The IRS is looking at Form 1099 matching—including new merchant reporting of credit cards, mysterious average statistics the IRS uses for comparison and—gulp—cash reporting. Did you remember to record and pay tax on all cash transactions? The controversial IRS notices are titled 'Notification of Possible Income Reporting.'

Although the IRS says it is just gathering information and not accusing anyone, not everyone is convinced. One Congressman, Sam Graves (R-Mo),



Demonstrators with the Tea Party protest the Internal Revenue Service (IRS) targeting of the Tea Party and similar groups during a rally called 'Audit the IRS' outside the US Capitol in Washington, DC, June 19, 2013. (Image credit: AFP/Getty Images via @daylife)

Chairman of the House Committee on Small Business, notes that the IRS's first sentence begins, "Your gross receipts may have been underreported." Says Congressman Graves, that sounds like the IRS is looking for more than just additional information. It sounds like it could mean more taxes, penalties and interest, Mr. Graves wrote in this letter to the agency.

Mr. Graves suggests that the letters could intimidate businesses. He says that a small business owner receiving this notice may be alarmed and feel threatened. The IRS notice goes on to say your receipts are off from an IRS average. Within 30 days, please provide documentation to prove why your numbers don't fall within IRS's standard, the IRS asks.

Yet the IRS doesn't reveal its source and doesn't say what the standard is or where it came from. It sounds like you are being asked to prove that you ***didn't*** underreport your income. That's proving a negative, and could require extensive correspondence and documentation.

As a result of Form 1099 changes and the ever-increasing web of reporting, the IRS receives detailed data about credit- and debit-card transactions. The IRS mines the data and may think that a high percentage of card transactions may mean you are not reporting all the cash you receive. 'Please explain,' the IRS may ask.

Why might a business report high card receipts compared with cash? If most items sold are for high dollar amounts, cards may be the norm. Plus, card receipt totals can include cash the customer takes back.

Sales tax is another huge issue, since it isn't income to the business that collects it from customers and sends it in to the state. Gift cards too result in a mismatch. Any or all of these may account for the difference. Many are now criticizing the IRS. See [Critics question IRS initiative targeting small businesses](#).

But the IRS defends its campaign as measured and equitable. The agency suggests that many businesses, including mom-and-pop ones, fail to report all their cash sales. The IRS is just trying to determine who is reporting what. But with compliance costs already high for many small businesses, this latest campaign seems unlikely to win the IRS pats on the back.

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