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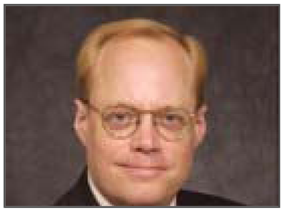

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IRS Warns Taxpayers Not To Be 'Too Concise' on Returns

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It's not every day that the IRS complains the submissions it receives are too concise. But that's the missive sent by the IRS to tax lawyers and accountants who've been filing the Schedule of Uncertain Tax Positions (UTP) as part of their tax returns.

Schedule UTP requires certain corporations to report each U.S. federal income tax position taken on their return if the corporation took a tax position and it or a related party has recorded a tax reserve in its audited financial statements, or did not record a reserve because the corporation expects to litigate the position.

What's this all about? It's mostly about consistency. If the company deducts a payment on its return, it should ***believe*** that tax deduction is correct and allowable. If it keeps a reserve on its books ***assuming*** that the deduction might be disallowed by the IRS, that suggests the company may not be convinced it's entitled to the deduction after all. In any case, it is inconsistent with claiming the deduction and the IRS is entitled to know about the reserve.

The UTP rule doesn't apply to every business. When the rule started in 2010 it applied to companies with $100 million of assets. For 2012, the figure is down to $50 million. It drops to $10 million for the 2014 tax year.

The IRS cares about the relative size of the tax position, but you don't have to list the dollar amount. The corporation must designate as a "major tax position" those tax positions for which the reserve exceeds 10% of the aggregate reserve for all of the tax positions on the UTP schedule. Taxpayers must provide a ***concise description*** of a reported tax position.

Here's where the IRS isn't happy. The instructions say that the description must be sufficiently detailed so the IRS can identify the tax position and the nature of the issue. The IRS says the description should not exceed a few sentences. But now the IRS says some people have gone too far the other direction and are ***too concise***.

The IRS says some descriptions weren't detailed enough so is warning taxpayers. Descriptions are insufficient if they don't clearly identify the taxpayer's tax position and/or do not provide sufficient relevant facts.

What's an example? If you describe a tax position as "a transfer pricing issue" it's too general. Instead, say something like: "The taxpayer allocated management service costs between its domestic subsidiaries and a foreign subsidiary located in Country X using a methodology the taxpayer considers reasonable. The issue is whether the taxpayer's method of allocating these costs is acceptable by the IRS."

For more, see:

Care With Forms 1099 Helps Audit-Proof Tax Returns

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When Tax Refunds Like Steinbrenner's Are Too Good To Be True

Ten Ways to Audit Proof Your Tax Return

What If Your CPA Altered Your Tax Return Without Telling You?

Ten Tips for Amending Your Tax Return

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