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Taxes Filed--But Is Your Return Safe From Audit?

“Is it safe yet?” is a good question to ask about your tax returns. The IRS normally has three years to question your taxes but the [tax code](#) says that time is **doubled** if you omitted 25% or more of your income. Should the IRS get double the time if you achieve the same effect by a higher basis—say by claiming you paid \$2 million for a house you actually bought for \$1 million?



In 2012, the U.S. Supreme Court in [U.S. v. Home Concrete & Supply, LLC](#) dramatically cut back on IRS reaches into the six year territory. The Court ruled basis claims aren't omissions from income so 3 years means 3 years. See [HUGE Taxpayer Win: Supreme Court Tells IRS 3 Years To Audit Is PLENTY!](#)

Many people are flummoxed by IRS [statute of limitations](#) questions. We all want to know when we can throw receipts away and legitimately point to the statute of limitations rather than finding receipts and making substantive tax arguments why a deduction was proper. Regarding the need for receipts, see [What If A Taxpayer Doesn't Have Receipts?](#)

Fraud? Who Me? One good question is how the statute of limitations on fraud fits into this puzzle. The IRS has **no** time limit if you **never** file a return

(the three year clock never starts to run) and no time limit on fraud. See [Section 6501\(c\)\(2\)](#). The fraud rule is confusing. You might think the IRS would assert fraud to get unlimited time.

Fortunately, the IRS has a high burden to carry to show fraud. The result of the high burden of proof is that the IRS doesn't often try to use the unlimited fraud statute. The [IRS handbook](#) on fraud makes interesting reading.

Extending the Time? Another common glitch is what happens if the IRS asks you to extend the statute. The IRS may contact you (usually about two and a half years after you file), asking you to ***extend*** the statute of limitations. The IRS may want to examine an issue, but has not had time to complete its analysis to determine if you do or don't deserve a tax bill.

As a result, the IRS will send you a [form](#) asking you to sign and return it consenting to extend the statute. Some taxpayers say "no" or ignore the request. Either way, that usually leads the IRS to send a notice assessing extra taxes based on whatever information the IRS has.

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