

# The IRS Says I Owe \$12,000. Now What Do I Do?



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Nothing strikes fear in the heart of a taxpayer more than receiving a letter in the mail from the IRS. This is the time of year taxpayers are receiving letters reporting items that may have been missed on a prior year tax return.

Generally speaking, it takes about 15 months for the IRS to match W2s, 1099s etc. they have received to your income tax return. For instance, your tax return for the year 2004 was filed by April 15<sup>th</sup> of 2005. 15 months later would be July of this year (2006).

Keep in mind, any W2s or 1099s you received were also sent to the IRS. The IRS **WILL** check your tax return to make sure it was reported. Depending upon the nature of the 1099, any tax due can be substantial or nothing. The three most common we encounter are:

1. You did some consulting or side jobs for someone as a subcontractor and did not receive a 1099MISC. Consequently, you forgot to tell your tax preparer about it. It is apparent the person that paid you sent one to the IRS even if you did not receive one.

2. You sold stocks (including cashing in stock options) or cashed in bonds or CDs. The IRS only receives the gross sales amount and will recalculate your tax assuming it was entirely profit if it was not reported on Schedule D.

3. You rolled over retirement money but the 1099R reported it as paid directly to you.

In these situations even if the additional income reported is correct you probably should amend the tax return to make sure any related expenses or "cost basis" are deducted against the income. Many times the actual amount due will be much lower than the IRS proposed amount or possibly nothing at all.

The absolute worst thing to do is throw the letter in a pile for your tax preparer to look at next year.

In any situation involving correspondence from the IRS, I strongly advise talking with a tax professional immediately. There is a definite advantage if someone who is familiar with these situations takes a look at it before you respond.

These "Correspondence Audits" as they are known are not the "Audits From Hell" people often hear about. We will address that topic later.

As always, feel free to give us a call if you receive any letters or have any questions.

## Alliance

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