

IRS Takes Heat.txt

IRS Takes Heat for Mishandling Its Mail Audits
By TOM HERMAN (The Wall Street Journal)

July 10, 2008 (Associated Press) -- Finding an IRS audit notice in your mailbox is stressful enough. But a senior IRS official says many taxpayers facing questions from the agency in recent months have suffered needless aggravation because IRS workers frequently fail to follow procedure.

In her midyear report to Congress Tuesday, Nina Olson, the Internal Revenue Service's National Taxpayer Advocate, said taxpayers have expressed concern about "confusing notices" and "non-responsiveness" by IRS workers to letters from taxpayers or their preparers trying to reply to IRS inquiries by mail.

Ms. Olson said the issue "calls into question" the effectiveness of the IRS's so-called correspondence audits, which are conducted by mail. That is a major issue since more than three-quarters of the IRS's nearly 1.4 million individual income-tax audits for fiscal 2007 were correspondence audits. In a typical mail audit, taxpayers are told to send documentation for items claimed on their returns, such as deductions for charitable donations.

Similar complaints have emerged from recent interviews with professional tax preparers. The National Association of Enrolled Agents, which represents about 40,000 federally licensed tax specialists, wrote the IRS late last year to "share our concern" about this "disturbing trend." In response, the IRS acknowledged there have been problems but said it has taken steps to "alleviate the concerns" and is pursuing additional action.

Taxpayers also are concerned about growing difficulties in reaching the IRS by phone this year. IRS officials confirm that the overall quality of phone service has deteriorated this year, but note that they have been flooded by phone calls from taxpayers with questions about their economic-stimulus payments.

In one recent case, a Virginia woman and her husband received a letter from the IRS earlier this

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year asking for documentation for their charitable donations. The IRS said the couple would owe thousands of dollars in additional taxes unless they could substantiate the gifts. Several days before the IRS deadline for replying, the woman sent a thick package of documents to support all the donations. To be safe, she sent the package by certified mail, with return receipt requested.

To her surprise, the IRS replied 15 days later with a "statutory notice of deficiency," informing the couple they owed the entire amount mentioned in the first letter - and that they had 90 days to pay up or go to Tax Court.

The woman finally reached the IRS by phone and was told the IRS had no record of receiving her information. When she informed the IRS she had proof that her records were received on time, the IRS said her package "probably" was sitting unopened in an IRS mailroom. About two weeks before the 90-day deadline, she received an IRS letter confirming that her package had been received. Recently, she received a note saying that her return had been accepted as filed - and that she didn't owe any taxes.

"These are totally unnecessary burdens" on taxpayers and "a waste of IRS resources," the woman says. "I proved all of my deductions on time. They never should have issued the statutory notice in the first place."

Ms. Olson says problems such as this could easily have been avoided if the IRS simply had allowed more time to consider taxpayer replies before firing off its 90-day letters. She also said such problems happen all too often.

In a recent study initiated by the National Taxpayer Advocate's office, the IRS sent out deficiency notices prematurely in 96 percent of 3,086 cases reviewed, "instead of waiting until the 45-day period," as called for by the IRS's manual, Ms. Olson's report to Congress said.

"I don't need any more evidence than that that there's something profoundly wrong," Ms. Olson said in a recent speech in New York to accountants.

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In a separate case, the IRS asked for documentation from a couple from Virginia Beach, Va., on unreimbursed employee business expenses and charitable donations. Even though the couple responded before the deadline, they still received IRS notices telling them they owed tax, says Cynthia Jeanguenat, an enrolled agent in Virginia Beach who handled their case.

"They were very upset," Ms. Jeanguenat recalls. "It's nerve-wracking to be getting notices and not know which one you're supposed to pay - or whether the IRS has even reviewed the information sent earlier. The taxpayer had all the documentation. The problem was getting the IRS to look at it."

Nearly seven months later, the IRS concluded the couple didn't owe any additional tax. Even so, "it's frustrating," says Ms. Jeanguenat. "Our goal is to resolve these issues quickly, and we cannot resolve these quickly because we're not dealing with a face. We're dealing with a service center somewhere."

So what can taxpayers do?

"Whatever you do, don't ignore an IRS notice," says Claudia Hill, an enrolled agent and owner of Tax Mam, a tax-services firm in Cupertino, Calif. "People get into jams for two main reasons: They fail to respond to an IRS notice because they don't understand it, or they're convinced it can't possibly be right."

Also, make sure you reply before the deadline. If you're convinced you're right and have good records, don't simply surrender and write a check whenever the IRS says you owe money. And if you get nowhere through normal IRS channels, consider contacting the IRS Taxpayer Advocate Service.