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*Certified Public Accountants*



**Defense Against The IRS, Tax Planning, Pension Planning, Business Planning**

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**May 1, 2009** **Volume 19, Number 3**  
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**What are your chances for being audited? IRS's 2008 data book provides some clues.**

IRS has issued its annual data book, which provides statistical data on its fiscal year (FY) 2008 activities. The data book provides information about how many tax returns the IRS audits, and what categories of returns IRS is focusing its resources on, as well as data on other enforcement activities, such as collections.

**What are the chances of being examined?** A total of 1,391,581 individual income tax returns were audited during October 1, 2007 through September 30, 2008 out of a total of 137.8 million individual returns. This works out to 1.0% of all individual returns filed (about the same as the audit rate for the preceding year).

Of the total number of returns audited, 503,755 (36.2%) were selected on the basis of an earned income tax credit claim (down slightly from the 36.5% rate for the preceding year).

Only 22.3% of the audits were conducted by revenue agents, tax compliance officers, and tax examiners; 77.7% of the audits were correspondence audits. A correspondence audit is a letter from the IRS asking you to explain something on a return filed or a letter proposing a change to an income tax return.

About 1.36 million individual returns were farm returns that showed gross receipts from farming. Of this group, only 7,542 (0.5%) were audited in 2008.

The no-change rate (returns accepted as filed after examination) was 11% for individual returns examined by revenue agents, tax compliance officers, or tax examiners, and 15% for correspondence audits.

For returns with total income of at least \$200,000 and under \$1 million, the audit rate was 2.6% for nonbusiness returns and 2.8% for business returns. For

returns with total income of \$1 million or more, the audit rate was 5.6% (down from 9.3% in the prior year).

The audit rates for entities were as follows:

- Estate and trust income tax returns, 0.1% of all estate and trust returns filed;
- Corporations with less than \$10 million of assets, 1.0% of all corporate returns filed;
- Corporations with \$10 million or more of assets, 15.3% (down from 16.8% for FY 2007);
- S Corporations, 0.4% of S Corporation returns filed; and,
- Partnerships, 0.4% of partnership returns filed.

**Offers in compromise.** In 2008 there were 44,000 offers in compromise received by the IRS, and 11,000 (25%) were accepted. Over recent years, these numbers have been dropping. In 2007 for example, 46,000 offers in compromise were received by the IRS, and 12,000 (26%) were accepted.

**Large number of significant tax provisions expires in 2009.**

Some of the provisions expiring in 2009 (generally at the end of 2009, unless otherwise noted) include:

- Additional first-year 50% bonus depreciation. Qualified property is allowed 50% depreciation (bonus depreciation) in the year that the property is placed in service. In addition, an \$8,000 increase in the first-year depreciation limit for passenger automobiles that are qualified property is also extended through 2009.
- Increased expensing election to \$250,000 (with a \$800,000 investment ceiling limit) under Code Sec. 179. Taxpayers can elect to deduct the cost of any Section 179 property placed in service

during the tax year as an expense. For 2010, expensing is limited to \$125,000 with a \$500,000 investment ceiling limit.

- Fifteen-year straight-line cost recovery for qualified leasehold improvements, qualified restaurant buildings and improvements, and qualified retail improvements.
- Additional standard deduction for state and local real property taxes. The real property tax deduction—the lesser of: (1) the amount allowable as a deduction under the itemized deduction rules for state and local real property taxes; or (2) \$500 (\$1,000 for a joint return)—is included as a component of the standard deduction.
- Deduction of State and local general sales taxes. At the taxpayer's election, state and local general sales taxes can be deducted in lieu of a state and local income tax deduction.
- First time homebuyer credit expiring for purchases after Nov. 30, 2009. A credit of \$8,000 (\$4,000 for married filing separately) is allowed for first-time homebuyer. The credit isn't recaptured unless the residence is sold or ceases to be a principal residence within 36 months of purchase.
- Deduction for State sales tax and excise tax on the purchase of motor vehicles. A new provision in the Recovery Act allows a standard or itemized deduction for sales and excise taxes imposed on most new vehicles purchased on or after Feb. 17, 2009 and before 2010.
- Deduction for qualified tuition and related expenses.

- Deduction for certain expenses of elementary and secondary school teachers.
- Credit for construction of new energy efficient homes. A contractor can claim a credit of \$2,000 (for a 50% energy reduction in energy usage) or \$1,000 (for a 30% energy reduction in energy usage) for each new energy efficient home he built.
- Partial exclusion of unemployment compensation benefits from gross income.
- Tax-free distributions from individual retirement plans for charitable purposes. An up-to-\$100,000 annual exclusion from gross income is allowed for taxpayers age 70 1/2 who make otherwise taxable IRA distributions that are qualified charitable distributions. The distributions are not subject to the charitable contribution percentage limits and are neither included in gross income nor claimed as a deduction on the taxpayer's return.

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***Thanks for Your Business!***

***Sometimes in the rush of deadlines and the day-to-day work schedule, we forget to say thanks for your business.***

***We recognize that you have a choice of accounting firms, and we appreciate and value your continued support. Our goal is to provide you, our clients, with excellence in service. If there is something you feel we need to improve, let us know. If you are pleased with our service, then let others know how we've been of help to you.***

***Your business keeps us going.***

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