

Mortgage interest can be a trap for tax dodgers, says TIGTA

For the past few years at least, one of the key goals of the IRS has been to make the tax burden more fair... not with a flat tax or by simplifying the tax code, but by catching tax dodgers and holding their feet to the fire. With so many people struggling to pay their mortgages and other financial obligations these days, it's more important than ever that everyone pays what they owe in taxes. That's why the IRS is expanding its use of one of its analytical tools to ferret out people who earn more than they claim they make on their tax returns. That tool is the Form 1098 on which mortgage interest is reported.

Based on a recommendation from the Treasury Inspector General for Tax Administration (TIGTA), the IRS will put more effort into comparing the mortgage interest that individuals pay (according to the 1098s filed by lenders) with the income they report on their federal tax forms. According to the TIGTA report, too often, the numbers don't add up. Based on testing of representative samples, it would appear that many people earn too little money to cover the mortgage interest they claim to be paying, even if they had no other

financial obligations. Many others pay a bundle in mortgage interest, yet file no returns at all. The IRS wants to know why.

Here are some of the tests TIGTA conducted -- using 2005 data -- to find out just how big this shortfall in paid tax might be.

Based on specific criteria, TIGTA representatives took a sample of 1098s showing mortgage interest paid of more than \$20,000, and then attempted to match the 1098s to corresponding tax returns. In many cases, there were no tax returns filed. By projecting the results of this representative group to the wider population, they estimate that the unpaid tax amount is somewhere between \$352,000,000 and \$900,000,000 with 95% confidence ... nothing to sneeze at.

A second sample looked at individuals who showed less gross income than they paid in mortgage interest. Again, projecting the results of this sample to the wider population, the estimate of unpaid taxes is between \$549,000,000 and \$1,053,000,000, with 95% confidence.

While TIGTA did admit that there is no way to know how

many of the non-filers in the testing were required to file tax returns, the overall recommendation was that using Form 1098 data to catch tax dodgers is a valuable and worthwhile tool, the use of which should be expanded.

"Information reporting is a key component in IRS compliance programs that are designed to detect and pursue noncompliant taxpayers who underreport income, overstate deductions, or fail to file tax returns," said TIGTA Inspector General J. Russell George in a statement. "Individuals who fail to file required returns and/or underreport their income create unfair burdens on honest taxpayers and diminish the public's respect for the tax system."

The IRS agrees. Matching information reports such as 1098s and federal income tax returns is not new. When discrepancies are found, the IRS routinely contacts about three million taxpayers every year to clear up the differences. But based on the findings of TIGTA, a lot of taxpayers or should-be taxpayers are still managing to slip through the cracks, to the tune of hundreds of millions, if not billions of dollars. As the IRS tightens its procedures... that's about to change.



The Taxman

Let me tell you how it will be;
There's one for you, nineteen for me.
'Cause I'm the taxman,
Yeah, I'm the taxman.

Should five per cent appear too small,
Be thankful I don't take it all.
'Cause I'm the taxman,
Yeah, I'm the taxman.

(if you drive a car, car;) - I'll tax the street;
(if you try to sit, sit;) - I'll tax your seat;
(if you get too cold, cold;) - I'll tax the heat;
(if you take a walk, walk;) - I'll tax your feet.

Taxman!

'Cause I'm the taxman,
Yeah, I'm the taxman.

Don't ask me what I want it for,
(ah-ah, mister Wilson)
If you don't want to pay some more.
(ah-ah, mister heath)
'Cause I'm the taxman,
Yeah, I'm the taxman.

Now my advice for those who die, (taxman)
Declare the pennies on your eyes. (taxman)
'Cause I'm the taxman,
Yeah, I'm the taxman.

And you're working for no one but me.

Taxman!

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Monthly Feature

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If you are a new business or an existing business that just needs more than your current application can provide it is important that you spend some time planning what you need today and what you need two years from now. Some software applications allow you to grow and easily migrate upwards to the next software package without having to purchase new software and go through the setup and learning curve all over again.

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