



DONOVAN SULLIVAN & RYAN

Spring 2010

A Newsletter for our Clients and Friends

WHAT ARE YOUR CHANCES OF BEING AUDITED?

The IRS has issued its statistical data on its fiscal year (FY) 2009 activities. The figures and percentages in this article compare returns filed in calendar year 2008 and audited in FY 2009 to returns filed in calendar year 2007 and audited in FY 2008.

Of the 138,788,744 total individual income tax returns with a filing requirement, 1,425,888 were audited. This works out to roughly 1%, the same percentage as for the previous year. Of the total number of individual income tax returns audited in FY 2009, 508,180 (35.64%) were for returns with an earned income tax credit (EITC) claim, roughly the same as for FY 2008.

Only 22.8% of the individual audits were conducted by revenue agents, tax compliance officers, and tax examiners; the bulk of the audits (about 77.1%) were correspondence audits. These percentages are comparable to those for FY 2008.

Following are the selected audit rates for individuals not claiming the EITC:

- ◆ For business returns showing total gross receipts of \$100,000 to \$200,000, 4.2% of returns were audited in FY 2009, versus 3.8% in FY 2008.
- ◆ For business returns showing total gross receipts of \$200,000 or more, 3.2% of returns were audited in FY 2009, versus 3.1% in FY 2008.
- ◆ For returns showing total positive income of \$200,000 to \$1 million, 2.3% of returns not showing business activity were audited, and 3.1% of returns showing business activity were audited; for FY 2008, these percentages were 2.6% and 2.8% respectively.
- ◆ For FY 2009, the audit rate for returns with total positive income of \$1 million or more was 6.4%, versus 5.6% in FY 2008.

Not surprisingly, examination coverage increases for higher income earners, but coverage was less than it was for the prior year. For example, the percentage was .67% for those returns with adjusted gross income (AGI) between \$100,000 and \$200,000 (down from .98% for FY 2008), 1.86% for those with \$200,000 to \$500,000 of AGI (down slightly from 1.92% for FY 2008), and 5.35% for those with \$1 to \$2 million of AGI (down from 6.47% for FY 2008).

The audit rates for business returns were as follows:

- For all corporate returns other than Form 1120S, 1.3%, the same percentage as for the year before.
- For small corporations with total assets of: \$250,000 to \$1 million, 1.3%; \$1-\$5 million, 1.8%; and \$5-10 million, 2.7%. For FY 2008, the percentages were, respectively, 1.4%, 2%, and 3.1%.
- For partnership and S corporation returns, the audit rate was .4%, the same as for the year before.



"More than accountants...business advisors"



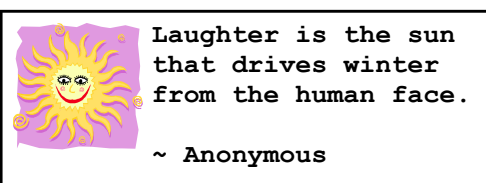
Dear Clients and Friends,

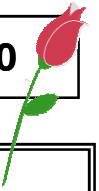
Well another tax season is almost over and I would like to thank our clients for their support and understanding during this busy time. I would also like to recognize our talented staff for all their efforts this tax season.

As you know, due to the filing deadline, we work under tremendous pressure. We are constantly looking for ways to improve our process and make the season go more smoothly for you and us. It's always our goal to provide you with superior service. I welcome your suggestions and referrals of friends and associates who could benefit from our service.

Sincerely,

Mike Ryan





NEW RATES FOR 2010

- ◆ The maximum amount of earnings subject to social security tax for 2010 has remained the same as 2009 at **\$106,800**.
- ◆ The personal exemption rate for 2010 remains the same as 2009 at **\$3,650** per exemption. Although the amount has not changed, personal exemptions will not be reduced as a person's income increases as in previous years.
- ◆ The standard deductions for 2010 for non-itemizers are as follows:

Single	\$5,700 (unchanged)
Married, filing separately	\$5,700 (unchanged)
Married, filing jointly	\$11,400 (unchanged)
Head of Household	\$8,400 (increase of \$500)

- ◆ The standard mileage rates for 2010 are as follows:

Business	50 cents per mile (down 5 cents)
Charitable	14 cents per mile (unchanged)
Medical	16.5 cents per mile (down 7.5 cents)
Moving	16.5 cents per mile (down 7.5 cents)



IRS and MA extended tax deadline to May 11 due to flooding



As you probably have heard, the deadline for both Federal and MA tax returns for individuals and businesses in Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester Counties has been extended to May 11, 2010. The extension applies to filing individual and business income tax returns, making income tax payments and making 2009 contributions to an IRA. Computer systems at the IRS automatically identify taxpayers who reside or have a business in the affected area. Please note that if you will be going on a six month extension, the due date for filing tax returns is still October 15, 2010.

BILL PASSED TO EASE CELL PHONE SUBSTANTIATION REQUIREMENTS



The House of Representatives recently passed a bill that, if passed by the Senate, would make the personal use of employer-provided cell phones not subject to taxation. Under the current law there are strict substantiation requirements for business use of cell phones that would be eliminated if the bill is passed by the Senate. Currently an employee may exclude the business use of an employer provided cell phone from income and any personal use of the cell phone would be a taxable fringe benefit. In June 2009, the IRS proposed simplification of the cell phone substantiation requirements to make clear that there will be no tax consequence to employers or employees for personal use of work-related devices such as cell phones. The passage of time, advances in technology, and the nature of communication in the modern workplace have rendered the current law obsolete.



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