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Business Tax Planning

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“AN ENVIRONMENT OF CHANGING TAX LEGISLATION”

It’s not just you.

The IRS is also challenged to keep up with 111th Congress.

The Treasury Inspector General for Tax Administration just issued a report on *Trends in Compliance Activities Through Fiscal Year 2010*.¹ Here are some excerpts (citations omitted):

Results of Review

During FY 2010, the IRS encountered many challenges, including a variety of tax provisions that were created, extended, or expanded. Specifically, the provisions were the:

- American Recovery and Reinvestment Act of 2009 (Recovery Act).
- Worker, Homeownership, and Business Assistance Act of 2009.
- Hiring Incentives to Restore Employment Act of 2010 (HIRE Act).
- Patient Protection and Affordable Care Act of 2010 (Affordable Care Act).

These tax provisions are examples of the impact tax law changes have on how the IRS conducts its activities, how many resources are required, and how quickly the IRS can meet strategic goals. **The IRS has**

¹ <http://www.treasury.gov/tigta/auditreports/2011reports/201130071fr.pdf>. (“Each year, the Treasury Inspector General for Tax Administration (TIGTA) conducts this review of nationwide compliance statistics for the Internal Revenue Service’s (IRS) Collection and Examination function activities.”)

the challenging task of maintaining a quality workforce and enforcing tax laws in an environment of changing tax legislation.

The [2009] Recovery Act included 56 tax provisions (20 related to individual taxpayers and 36 related to business taxpayers). These provisions will continue to challenge the IRS over multiple filing seasons. A significant provision of the Recovery Act is the Making Work Pay Tax Credit, which applied to most taxpayers with earned income. The Making Work Pay Tax Credit was advanced to taxpayers through their wages by a decrease in Federal income tax withholding. The Credit was in effect for Tax Years 2009 and 2010 and was implemented through new income tax withholding tables issued by the IRS. [Treasury] reported that the reduced income tax withholding associated with the Making Work Pay Tax Credit would make some taxpayers vulnerable to under-withholding of taxes for Tax Years 2009 and 2010. Taxpayers who were advanced more of the Making Work Pay Tax Credit than they were entitled to owed taxes when filing their Tax Year 2009 returns and may again owe taxes when filing their Tax Year 2010 tax returns.

The Worker, Homeownership, and Business Assistance Act of 2009 revised, extended, and expanded the First-Time Homebuyer Credit (Homebuyer Credit) to a broader range of home purchases and added new documentation requirements. For example, long-time residents of the same main home may now claim the Homebuyer Credit if they purchase new principal residences. New documentation requirements mean that taxpayers claiming the Homebuyer Credit may not file their tax returns electronically and must file paper tax returns. Initially, the IRS did not have [the] authority to disallow the Homebuyer Credit during processing if documentation was not provided. Congress has since passed legislation requiring documentation for the Homebuyer Credit and provided the IRS with [the] authority to disallow the Credit if the documentation was not provided.

...

At least 42 of the 514 [2010] Affordable Care Act provisions add to or amend the Internal Revenue Code, and at least 8 require the IRS to establish new operations. Collectively, these provisions represent the largest set of tax law changes in 20 years. The Affordable Care Act contains \$438 billion of revenue provisions in the form of new taxes and fees....

Feeling sorry for the IRS yet? What's that? You're feeling sorry for someone else who "has the challenging task of maintaining a quality workforce and [complying with] tax laws in an environment of changing tax legislation"?

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