Episodes 49- On IRS Audits

This document provides resources for educators looking for ways to incorporate current events into their curriculum. Each podcast episode is approximately 20 minutes long and available on all major podcast outlets for free. This document provides opportunities for either short-answer/essay-style questions or discussion questions to delve further into topics. Email taxnerds@gmail.com for an answer key.

In this episode, we discuss the audit process in the U.S. with some perspective of which taxpayers are most likely to be audited.

Concepts covered

- IRS Enforcement
- Audit process

Multiple choice/True False

1. Which of the following describes the general purpose of tax audits? Select all that apply.
   a. Audits correct unintentional errors
   b. Audits are only for catching tax "cheats"
   c. Audits are not necessary in a tax system where compliance is voluntary
   d. Audits can help detect nefarious reporting behavior

2. According to the podcast, what is the point of incorporating random audits into a tax enforcement system?
   a. To save IRS resources
   b. To scare innocent taxpayers into complying with the tax law
   c. To establish expectations of what a "normal" tax return looks like
   d. To comply with Congressional mandates

3. True or False: Sometimes taxpayers are selected for audit if their tax return is related to other taxpayers (e.g. business partners) who have also been audited.
   a. True
   b. False

4. True or False: The IRS publishes its audit selection algorithm for non-random audits.
   a. True
   b. False

5. According to the podcast, what are some things that can raise the likelihood of an audit? Select all that apply.
    a. Changing jobs in the middle of the year
    b. Being married
    c. Reporting cryptocurrency transactions
    d. Being self-employed

6. Which of the following are the IRS and Beyonce disagreeing about? Select all that apply.
    a. The amount of charitable contributions that she claimed
    b. The amount of royalty income she reported
    c. The number of personal exemptions she claimed
    d. Whether the business deductions she claimed were actually paid or incurred during the tax year and whether they were ordinary and necessary.

7. True or False: Taxpayers must keep receipts or other documentation to substantiate their deductions, or the IRS can challenge and disallow reported amounts.
    a. True
    b. False

8. According to the podcase, which of the following can cause complexity over charitable contribution deductions? Select all that apply.
    a. There are different limits for how much an individual can deduct based on their income and the type of organization they donated to.
    b. Cash contributions are generally not deductible.
    c. Noncash contributions can be difficult to value.
    d. It is difficult for taxpayers to know if they are donating to qualified charities.

9. According to the podcast, the IRS recommended how much additional tax, on average, for audits of taxpayers reporting more than $10M of income?
    a. $0
    b. $109,000
    c. $939,000
    d. $1,900,000

10. What is the statute of limitations for the IRS to assess a deficiency, in general?
    a. One year
    b. Three years
    c. Five years
    d. Six years

11. What are the two types of IRS audits?
    a. Correspondence audits
    b. E-mail audits
    c. Field audits
    d. Technical audits

12. Place the following events in order:
    a. The IRS proposes a change to the taxpayer’s liability
    b. The taxpayer receives a 90-Day letter from the IRS
    c. The taxpayer appeals to the IRS Office of Appeals
    d. The IRS randomly selects a tax return for audit

13. True or False: Taxpayers must appeal any change to their tax liability that they disagree with to the IRS Office of Appeals.
    a. True
    b. False

14. According to the podcast, which of the following are advantages of filing suit in Tax Court rather than a district court or court of federal claims?
    a. Taxpayers do not have to pay the tax deficiency before going to Tax Court
    b. Tax Courts are more conveniently located around the U.S.
    c. Lawyers charge reduced fees to represent clients in Tax Court
    d. 85% of Tax Court cases are settled before going to trial

Discussion question:

Explain how third-party income reporting can facilitate tax compliance.

Discuss the benefits and potential costs of including random audits in tax enforcement systems.