

SECTION 9

UNREPORTED INCOME INITIATIVES

The IRS Has Multiple Initiatives to Identify Unreported Income

One of the Internal Revenue Service's priorities is to identify individuals who are filing tax returns but not reporting all taxable income. In addition to increasing the resources devoted to this key area, the IRS has implemented a broad strategy to address these cases.

Document Matching

One part of the strategy is the document-matching program. Payers filed over 1.4 trillion information reports for tax year 2002 (Forms 1099, W-2, K-1, etc.). The IRS matches all information reports to the recipient's return to determine if the income was included. In 2004, the IRS estimates it will initiate contact with over 1.6 million taxpayers whose returns appear to be missing some income based on a comparison of reports from payers.

Unreported Income Audit Selection Tool

The IRS strategy also includes methods to address the issue of unreported income not identifiable through reports from payers, for example, the gross receipts of a business. The IRS cautions the public that omissions of income will be detected. A new tool was put into use in 2002 for identifying returns with a high probability of unreported income. The tool is known as Unreported Income Discriminate Index Function (UI DIF).

All returns have traditionally been assigned a DIF score during processing, rating the probability of inaccurate information on the return. The UI DIF score rates the probability of income being omitted from the return. The IRS has historically used indirect examination methods to identify unreported income but, until UI DIF, had no systemic method for selecting the returns at highest risk for unreported income.

With UI DIF, the IRS is able to systemically identify returns at high risk for unreported income. Many returns now receive a UI DIF score in addition to the traditional DIF score. Thousands of examinations currently in the hands of auditors were selected based on high UI DIF scores.

While UI DIF is already proving successful in finding returns with missing income, a research program is currently being used to update the formula to make it even more powerful. IRS is also developing business rules using multiple-year return data that will complement the UI DIF formula.

Partnering With Other Agencies

In addition to document matching and UI DIF, the IRS is increasingly using techniques that involve partnerships with other government agencies. Examples

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of information already being shared or currently being explored include state and local tax return information, audit reports and asset information.

What can you do?

What is a person to do who has been underreporting income? ***They should immediately file amended returns!*** The IRS or a tax professional can provide guidance. The risk of being detected by the IRS is increasing. And when some persons fail to comply with the tax laws, the consequence is that law-abiding taxpayers have to pay more than their fair share.

IRS Assistance

- [Tax forms, publications and information](http://www.irs.gov/formspubs/index.html)
(<http://www.irs.gov/formspubs/index.html>)
- [Local office addresses](http://www.irs.gov/localcontacts/index.html) (<http://www.irs.gov/localcontacts/index.html>)
- Tax law and account questions - 800-829-1040
- Business and specialty tax questions - 800-829-4933
- Tax forms and publications - 800-829-3676