

Hey, it's Siobhan here. And this video is about our brand new worry-free client care package. I'm actually pretty excited about this. This is a really new thing for us. But here's the deal. TurboTax h and r block, all of the big mass producers of tax preparation. They offer an add-on service for audit protection. And over the years I've often had people ask me, do you do something like that? And my answer was always no. And it's because I really didn't think it was needed. I think h and R Block and TurboTax and all those guys, have been doing that because it helps them make more money. But I don't think there's really been a whole lot of value in that offering in the past, at least in the last 12 years that I've been in practice. And the reason for that is because there have been really a very low rate of audits on tax returns over the last 12 years.

I have represented clients in cases of audit and I represented more clients in audits on returns that were not prepared in our office than returns prepared in our office. Really, I could count probably on one hand the number of audits that I've seen over the last 12 years on tax returns that we have prepared in our office although we've helped clients with other audits.

But that's changing. Now, we're going to see more audits. So, here's what's going on. In August of 2022, the Inflation Reduction Act was passed. The name aside, I'm not sure I agree with it, but that's a whole other conversation. We're not going there. It made a lot of tax law changes. One of the things that ACT did is it increased funding to the I R S to the tune of \$80 billion over the next 10 years.

That's a big chunk of change. Now, the very recently passed just last week spending package to avoid government shutdown. That budget and that funding decreases the IRS's baseline budget a little bit, but it actually does not reduce this 80 billion increase in funding for the I R S over the next 10 years. So the IRS has some money coming to them and a minimum of \$45 billion of that is going to enforcement. Enforcement means notices, and even more importantly, audits.

I want to dispel a few urban myths here. The IRS is not hiring an army of 87,000 more auditors. They are not sending armed agents into the streets to track people down. That is political hyperbole. That is not reality. Now here's what is real. The IRS is going to do a lot of hiring and actually that 87,000 number for hiring new employees is a reasonable estimate over the next 10 years, but they're also estimating 70,000 to 80,000 existing employees to leave employment with the IRS over the next 10 years. So most of that number is replacing existing workforce.

But we are expecting to see probably 5,000 to 7,000 new auditors hired by the IRS in the next 12 to 18 months. They're kind of doing it as quickly as they can because they have so much funding going to enforcement. So what's going to happen internally in the IRS is the current auditors will be promoted to managers, audit managers, and then all of these new incoming inexperienced auditors will actually be doing all of the audits. It's not going to be super fun for us who are representing clients in audit because we're dealing with folks who are a lot less experienced than we are with audits. But that is what the IRS is planning to do.

And with the increased funding and the increased hiring in doing audits, we're expecting to see the rate of audit at least double, probably more. Now the political conversation around this particularly from certain politicians is saying that they're being very targeted in increasing audits on high net worth

individuals and high earning individuals. But they've also said the ratio of audits in different income brackets will be relatively stable. So although they're increasing audits on high income individuals, if the ratio is stable on all income levels, that means they're increasing audits on lower income individuals as well, and middle income individuals as well.

Across the board, we're going to see more audits and like I said, at least double what we've seen. Now, it's going to take time for the IRS to hire and train all those new auditors, probably 12 to 18 months or so, and the IRS has a lag time from when the time of return is filed to when it's selected for audit. So currently here I'm filming this video right at the very end of 2022 or just on the cusp of 2023. Returns that are being audited right now are 2020 and 2021. So they're a year to two years behind the current year filing. So in 12 to 18 months when we have this new workforce of new auditors what returns are they going to be auditing? I don't have a crystal ball, I can't guarantee it, but I think 2022 is the first tax year where we're going to see quite a significant increase in the rate of returns being audited.

Now, the IRS has already said some of their targets, the very first target for increased rates of audit are partnerships. In partnerships, there's something called basis, and I'm not going to go into a whole training on basis. The tax law around basis is ridiculously complicated. In fact, I've done about 10 hours of continuing education just on this topic just in the last 90 days alone. It is not the first time I've studied it. Let me tell you, it is so complicated. It's really a ridiculously crazy complicated part of our tax law. As a result, people do it wrong all the time on tax returns. And so partnerships are one of the very first type of tax return that IRS is going to be targeting with audits. And they're actually trying to do that before they hire this whole new audit workforce. They're actually doing that right now.

Companies with the ERC employment retention credit claims. I sent out an email about this recently. I'm seeing a lot of kind of phishing. It feels like a phish scam on preparing ERC claims for businesses. I personally get a phone call or an email at least every two to three days, telling me that I haven't claimed my ERC credits yet. The only problem is I don't qualify. So I know they are not speaking the truth to me. I even see legitimate accounting offices preparing claims for ERC when I don't think they will hold up in an audit. This makes me very uncomfortable and I'm very concerned about some of our clients who have used outside services to prepare ERC claims. They have very big checks coming from the IRS when these are processed, but they also have very big audit risk. And if the IRS disallows those claims, it will be very expensive. So ERC, the employment retention credit is an area that the IRS will be targeting in their audits.

The other one particularly for businesses is s-corporations. The area the IRS cares about is wages versus profit distributions. We do a ton of tax strategy management on this topic already and we will do even more as time goes on. And if this is an area that IRS is going to be paying attention to. They've recently added new forms for more disclosure of what's happening around shareholder wages and private distributions and loans and so forth. And that's just their first step towards getting ready to do more audits on those. Now this applies to both the business return and the individual return that reports the income and there's going to be more like this. This is just what they've talked about so far. I actually recently went through with a group of colleagues, went through each tax return type and we brainstormed our list of what we think the IRS is going to be auditing in addition to what they've already told us they're going to be looking for. So we are really working on putting in place systems to help protect all of you in the tax return preparation process knowing that this is coming.

The other thing that we know is coming is more IRS notices. This is different from an audit. An IRS notice is when the IRS thinks there's something wrong with your tax return and they send you a notice and they say, Hey, we think you made a mistake and as a result of that, we think you owe us more money. We've already seen an increase in these notices coming from the IRS over the last two years. And this is true on tax returns that we have prepared and filed.

We've seen two types of situations generally. Either there was a form that didn't get to us for the tax preparation process or there was confusion about how tax payments were made or things like that. Basically some kind of error in the data we received for preparing the tax return. And so then the IRS goes, Hey, wait a minute. What you told us is not jiving with our records and so we think you owe more tax. We're going to see even more of those with the 1099-K video. If you haven't watched that one yet, watch that so that you know what I'm talking about and why we're going to see more of those notices I think. So we've already seen an increase in notices from the IRS. I think we're going to see even more both with the funding for enforcement and with the 1099-K changes. And so we're just expecting more of it. It's just what we're going to see in our profession.

Given all of this, I decided that it is time to provide protection for you all because I think you actually might need it now. So when people have asked me in the past, do you provide some kind of audit protection, no, I never have in the past because I didn't think you need it. But with the funding that's going into enforcement, the increase rate of audit, the increase in notices that we have been seeing already and that I'm expecting to see even more of, I think there's a whole lot of value to providing you with some protection. So that's really where I'm coming from with this.

I want have your back. I want help you sleep at night knowing that I am your advocate if any of this ever comes up for you. And you will never have to speak to the IRS when you have me on your team because I can do that for you. So for 2022 tax returns, for the first time ever, we are providing our brand new worry-free client care package.

Here's what this looks like. We are going to offer three levels of protection. The first level is basic. This means you have notice coverage. So if you get a notice from the IRS, we will review it and we'll respond to it and that service will be covered. If you have the worry free client care package you don't have to talk to the IRS, we'll go to bat for you. That's the basic level.

Now, the silver level includes the notice review and response coverage. It adds state tax returns to that as well. We don't do a lot of state tax returns because Washington State doesn't have an income tax, but we do do a handful of California and Oregon and Idaho and so forth. So the silver level adds that notice protection for state tax returns and it has audit representation and defense. So if your tax return federal or state is selected for audit, again, you don't have to talk to the IRS. We are your advocate for the IRS and we will represent you in that audit to best serve your interests in that audit. Now of course, I cannot guarantee the outcome of an audit. I'm not in complete control, but I do have some experience in managing auditors and managing the audit process and helping clients to get what they need out of that process. So that's the silver level of protection.

And then finally the gold level includes everything in the basic and silver. The notice protection, the audit protection, and then we also add identity theft remediation and a few priority service perks like faster turnaround on phone calls and appointment scheduling and things like that. But tax identity theft is when your social security number is being used fraudulently by someone else to claim a refund that is a fraudulent refund. We see this with the taxpayer, the spouse listed on the tax return and dependent. All three can be victims of tax identity theft.

Sometimes we'll file a tax return and we'll get a rejection notice from the IRS saying, this taxpayer already filed. Well they are our client so we know they didn't. That means somebody stole their social security number, filed a fraudulent tax return under their name and social security number to get a refund. So if this happens to you, and again it can happen with the taxpayer, the spouse are dependent on the tax return. If this happens to you and you have our worry-free client care package covering you at the gold level, then we will take care of the tax identity theft remediation process. So we prepare an identity theft claim with the IRS, we represent you with the IRS to get your correct tax return accepted by them. If a refund went out, we make sure you're not liable to pay that back. We get the correct refund to you or the correct amount of tax to pay.

And then we provide for you recommended steps to protect your identity theft beyond the tax identity theft. I would say about 30 to 50% of the time. I think it's probably a trend of increasing. When we see tax identity theft, there's usually some other identity theft going on as well. There certainly is a higher risk of it. So we provide the information for you so that you can do the other things you need to do to protect your identity beyond the tax side of things.

So those are our three levels of service, basic, silver and gold. And here's how our program is going to work to best serve you and protect you and protect your tax return. And because I really believe in this offering. Given what I'm seeing with our industry and the IRS, you will be automatically enrolled in our Worry Free client care package for your 2022 tax return. I designed this program and I am specifically choosing a level of coverage that I recommend for you. When you're automatically enrolled, it will be either the basic silver or gold level and the fee for this client care package will be added to your final tax preparation invoice. Now, when you receive that, if you want to change your level of coverage, maybe I've chosen the silver level and you think, no, I really want gold or I've chosen gold, and you think, I'm not so worried about tax identity theft, let's go with silver. Great, no problem. Just let us know. We'll change your level of coverage and update your services and your fee accordingly.

You also have the option to opt out. I'm not forcing this upon you. Obviously I believe in it, otherwise I wouldn't be doing it. And I think it is so important and that's why I'm setting it up as an automatic enrollment. But you absolutely have the right to opt out. When you receive your completed tax return invoice, if you would like to opt out of the worry free client care package, all you need to do is let us know. We'll remove that from your services and your invoice. We'll have you sign off on an agreement saying that you have waived it and opt opted out. That's absolutely fine. And what that means is if your 2022 return triggers a notice and you need our help resolving that or an audit and you need our help resolving that, there will be an extra fee for those services. Same obviously for the tax identity theft.

So that's how it's going to work. Like I said, I'm actually really excited to be offering this. I never thought it was needed before. I do think it is now. And like I said, I want to be on your team. I want to have your

back. I want to help protect you. And given the changes I've seen with IRS and their funding and their focus on enforcement and audits, I think there's huge value in having peace of mind that comes with the worry free client care package. This really makes it so that you don't have to worry about this stuff. You can sleep at night knowing that you've got us in your back pocket if and when that comes up.

As with all of these videos, if you have any questions, please let us know and we will look forward to serving you this tax season and providing that extra level of protection.