

## Sole Proprietors Contributing to Tax Gap

Washington, D.C. (Aug. 15, 2007) - At least 61 percent of sole proprietor companies are underreporting their net business income, but a small proportion of them account for the bulk of understated taxes, according to a report by the Government Accountability Office.

The GAO found that both gross income and expenses were misreported, but that most of the understated taxes were in relatively small amounts. Half the understatements found by IRS examiners were less than \$903.

However, 10 percent of the tax understatements, made by over 1 million sole proprietors, were above \$6,200. In that top group, the average understated tax was \$18,000.

The GAO found that the IRS's two main enforcement programs -- the Automated Underreporter Program, which computer-matches information on a tax return with information submitted to the IRS by third parties, and examinations such as audits -- had limited reach in uncovering the underreporting by sole proprietor businesses. The two programs contact less than 3 percent each year of noncompliant sole proprietor businesses.

The GAO recommends that the Treasury Department ensure that its tax gap strategy covers sole proprietor compliance. The IRS estimated that \$68 billion of the \$345 billion tax gap in 2001 was due to underreporting of sole proprietor companies. WebCPA staff AccountantWorld

## The How-to's of Reducing Your Tax Headache Now

Now is the time to think taxes and do a few simple things to reduce your headache for next April 15<sup>th</sup>.

### #1 – Organize

Begin now to organize your tax documents that you will accumulate during 2007. Use your 2006 tax return as a guide to the type of expenses you will need for tax time. A little organization now will reap tremendous benefits next tax season when all the required documents are easily located.

### #2 – Plan effectively

Taxpayers should pay the lowest legal amount of tax and one sure way to do so is to legally reduce your adjusted gross income. Participate in your company's 401(k) plan or make qualified retirement plan contributions to reduce your adjusted gross income

Adjust your withholding or increase your estimated tax payments if you owed taxes for 2006. Make these adjustments now in order that you will have adequate withholding for 2007 or in order that your estimated tax payments are sufficient to cover your tax liability. Proper planning today will avoid penalty and interest tomorrow.

### #3 – Meet with your tax professional

The Tax Code is complex and often taxpayers need the assurance of a knowledgeable tax professional to direct them through the maze of tax preparation. Your personal circumstances may change, divorce, marriage, loss of dependent and your tax situation may radically be altered. Consult with your tax professional early and often when life circumstances may have a tax affect.

**A little planning today results in a great plan for April 15<sup>th</sup>**