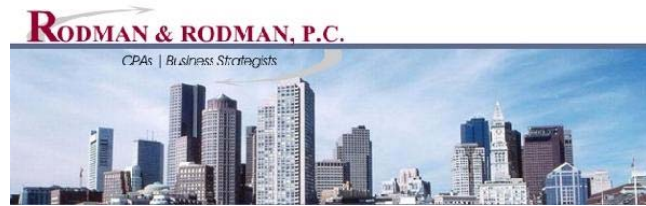


The Rodman Report - June 16th, 2010



Your Chances of an IRS Audit

by Thomas Astore - Tax Director

IRS has issued its annual data book, which provides statistical data on its fiscal year (FY) 2009 activities. As this article explains, the data book provides valuable



information about how many tax returns IRS examines (audits), and what categories of returns IRS is focusing its resources on, as well as data on other enforcement activities, such as collections. The figures and percentages in this article compare returns filed in calendar year 2008 and audited in FY 2009 to returns filed in calendar year 2007 and audited in FY 2008.

What are the chances of being audited? Of the 138,788,744 total individual income tax returns with a filing requirement (this excludes returns filed only to receive an economic stimulus payment), 1,425,888 were audited. This works out to roughly 1%, the same percentage as for the previous year. Of the total number of individual income tax returns audited in FY 2009, 508,180 (35.64%) were for returns with an earned income tax credit (EITC) claim, roughly the same as for FY 2008.

Only 22.8% of the individual audits were conducted by revenue agents, tax compliance officers, and tax examiners; the bulk of the audits (about 77.1%) were correspondence audits. These percentages are comparable to those for FY 2008.

Following are the selected audit rates for individuals not claiming the EITC:

- For business returns other than farm returns showing total gross receipts of \$100,000 to \$200,000, 4.2% of returns were audited in FY 2009, versus 3.8% in FY 2008.
- For business returns other than farm returns showing total gross receipts of \$200,000 or more, 3.2% of returns were audited in FY 2009, versus 3.1% in FY 2008.
- Of the returns showing farm (Schedule F) income, .3% were audited in FY 2009 versus .6% in FY 2008.
- For returns showing total positive income of \$200,000 to \$1 million, 2.3% of returns not showing business activity were audited, and 3.1% of returns showing business activity were audited; for FY 2008, these percentages were 2.6% and 2.8% respectively.
- For FY 2009, the audit rate for returns with total positive income of \$1 million or more was 6.4%, versus 5.6% in FY 2008.

Not surprisingly, **examination coverage increases for higher income earners,**

but coverage was less than it was for the prior year. For example, the percentage was .67% for those returns with adjusted gross income (AGI) between \$100,000 and \$200,000 (down from .98% for FY 2008), 1.86% for those with \$200,000 to \$500,000 of AGI (down slightly from 1.92% for FY 2008), and 5.35% for those with \$1 to \$2 million of AGI (down from 6.47% for FY 2008).

The audit rates for business returns were as follows:

- For all corporate returns other than Form 1120S, **1.3%, the same percentage as for the year before.**
- For small corporations with total assets of: \$250,000 to \$1 million, 1.3%; \$1-\$5 million, 1.8%; and \$5-10 million, 2.7%. For FY 2008, the percentages were, respectively, 1.4%, 2%, and 3.1%.
- **For large corporations, those with total assets of \$10 million or more, the overall audit rate was 14.5%, down from 15.3% for FY 2008.** The audit rate for these corporations increased with the size of the entity. For example, the audit rates were 10.1% for those with total assets of \$10-\$50 million (versus 11.7% for FY 2008); 15.8% for those with \$250-\$500 million (versus 14.2% for FY 2008); 48.7% for those with \$5-20 billion (versus 64.2% for FY 2008), and for both fiscal years, 100% for those with \$20 billion or more. Actually, the FY audit rate for 2009 (or for FY 2008) may exceed 100% of the returns filed in calendar year 2008 (or calendar year 2007), since examinations may be conducted on returns filed in prior calendar years.
- **For partnership and S corporation returns, the audit rate was .4%, the same as for the year before.**

Quality & Growth Can Coexist

by

Arthur F. Sullivan, III

Schooner Group, Inc.

During the 1930s, Toyota began implementing a system to streamline production and improve quality. This was the catalyst for the formation of the Six Sigma and Lean Principles. During the next 70 plus years, Toyota built upon these systems to manufacture very reliable automobiles and build a successful brand.

At some point during the last decade, an emphasis on becoming the number one automobile manufacturer began to take the lead over their traditional focus. With the recent media attention regarding the large-scope recalls of Toyota automobiles, it seems like rapid growth may have come at the expense of quality and durability.



There is a cost for quality which can be minimized when the process and systems are structured properly. These systems can be developed to complement and manage the growth. This assures the expanding customer base receives the best quality product throughout the growth cycle of the business.

Some aspects of business that can be impacted by quality and growth concerns:

- Shipping and distribution;

- Cost containment;
- Marketing & sales;
- Inventory control;
- Operational management;
- Accounts payable and accounts receivable; and obviously
- Production and manufacturing.

My company has assisted several clients to document and control their processes so that each process becomes repeatable and reliable. Recently, we assisted a client that was growing but being hampered by a high defect rate. Through an analysis of the process, we located a defect within the machinery used which had an impact on the size and dimensions of the finished product. By performing this analysis, and finding the problem and thus the solution, the client was able to significantly increase throughput yield, reduce the cost of rework, and improved the bottom line with a minimal repair to the machinery.

Quality and growth can co-exist, but it requires a diligent approach to continuous improvement of all of the relevant systems in a business.

Arthur F Sullivan, III, Founder and President of Schooner Group, brings over 20 years of municipal and management experience working in various size municipalities in Massachusetts and Rhode Island as well as management experience in the private sector. Arthur can be reached by phone at 978-894-5079 and by email at asullivan@schoonergroup.com.

Nanmac Wins Prestigious SBA Award

U.S. Small Business Administration



We are proud to announce that **Dan Nanigian and his Team at Nanmac Corporation** have been named **2010 Small Business Exporter of The Year** by the U.S. Small Business Administration (SBA)!

Your Small Business Resource

A long time Rodman & Rodman client, Nanmac manufactures temperature sensors for a number of industrial applications and is based in Framingham. Dan recognized the need for his products overseas, particularly in China, and has been successfully selling into those markets for some time.

The SBA has long understood the importance of small companies like Nanmac and their role in maintaining a manufacturing base in the U.S. This award recognizes companies who are proactive and effective in exporting their products to foreign markets.

Dan and the entire Team at Nanmac should be proud of this well-deserved praise.

Additional information about the award can be found by clicking [here](#).

Congratulations again to Dan and everyone at Nanmac Corporation.



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Thank you for checking in on The Rodman Report. We'll see you next time.

Best regards,

The Rodman Team

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