

# In Perspective

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### Real Estate Section

#### ***IRS to Examine Returns with Rental Real Estate Activity***

The Treasury Inspector General for Tax Administration (TIGATA) conducted research in August 2008 to find that at least 53 percent of individual tax taxpayers with rental real estate activity for tax year 2001 misreported their rental real estate activity, resulting in an estimated \$12.4 billion of misreported income. This review was conducted to evaluate the IRS' scrutiny of individual tax returns with rental real estate activity.

The TIGTA projected the IRS could potentially increase tax assessments by \$27.3 million over a five-year period if they increased the number of rental real estate tax returns examined. Other recommendations from the report include:

- An analysis to determine the population of tax returns with rental real estate activity that meets the criteria for inclusion in the Compliance Initiative Program
- A revision of the 2011 instructions for Form 8582 to require all tax payers with prior-year unallowed passive activity losses to submit a form
- The IRS will transcribe the information taxpayers provide to report the net amount of income earned, or losses incurred, from being a real estate professional

The goal of the improvements is designed to reduce the tax gap. Taxpayers with rental activity should be aware of a possible IRS audit in the coming years. It is imperative to keep proper records of rental gains and losses in case your tax return is examined.

Article written by: Joe Pomrenke, senior associate at McQuadeBrennan.

### Your Comments

- Is this item worthy of implementation?      **Yes**       **No**       **Maybe**
- Is this item worth sharing with other associates?      **Yes**       **No**       **Maybe**
- Did this item present value to you and your business?      **Yes**       **No**       **Maybe**

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