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Date _____

ECONOMIC REALITY DISCUSSION

The IRS has been looking much closer at taxpayers’ tax returns with an eye toward “economic reality”. This means, simply stated, that the IRS will scrutinize tax returns showing little to no taxable income if there is no evident ability for the taxpayer to maintain a normal life.

This primarily takes the form of the IRS asking “since you show no taxable income on your return, how did you live? How did you feed yourself, pay your mortgage, finance your vehicle, etc.”. It is my understanding that the IRS has gone so far as to penalize tax preparers for signing a tax return when the face of the return should have caused concern on his/her part.

What the IRS is looking for is a plausible explanation. Absent such an explanation, the IRS will conclude that the taxpayer has unreported income. The purpose of this memo is to have a conversation with my client and document how they are paying basic living expenses. Below are some boxes that should be considered and appropriately checked:

- Used savings
- Had inheritance
- Had non-taxable income
- Borrowed on credit cards
- Help from family members
- Other _____

By my signature below, I acknowledge that I have had this discussion with Michael A. Gordon (or a staff member of his) and have made the representations above. I represent that I have no unreported taxable income.

Client Name: _____ Date: _____

Taxpayer signature: _____

Spouse signature: _____

