

IRS Announces Plan to Require Reporting of Uncertain Tax Positions

Last week, the Internal Revenue Service announced its plan to require business taxpayers with total assets greater than \$10 million to disclose "uncertain tax positions" on their tax returns. This disclosure might greatly change how the IRS selects tax returns and issues for audit. The IRS is accepting comments on its proposal through March and then will finalize the requirements. Dixon Hughes will be following and potentially formally commenting to the IRS on the issue. The following paragraphs outline the proposal as it has currently been unveiled in IRS Announcement 2010-9.

The IRS is developing a tax return schedule that will require the disclosure of uncertain tax positions where the taxpayer prepares financial statements that require a tax reserve under Financial Accounting Standards Board Interpretation No. 48 or other similar accounting standards. Uncertain tax positions would also include positions related to the determination of federal income tax liability where a tax reserve has not been recorded because the taxpayer expects to litigate the position, or the taxpayer has determined that the IRS has a general administrative practice not to examine that position.

The schedule would require taxpayers to provide a concise description of each uncertain position so that the IRS can determine the nature of the issue. As currently contemplated, the description will include the rationale for the position and a statement as to why the taxpayer has determined the position is uncertain. It must also include among other things the Internal Revenue Code sections potentially implicated and the taxable years to which the position relates. In addition to the description statement the schedule will require disclosure of the maximum amount of the potential Federal tax liability attributable to each uncertain tax position.

The IRS intends for the new schedule to be completed by an affected business taxpayer with returns filed after the schedule's final release. However, IRS Commissioner Shulman has told reporters "this certainly won't be in effect for this filing season."

There are many uncertainties at this time surrounding the proposal. This may impact how returns are prepared, what positions are taken and the responsibilities of tax preparers. We will be actively following this issue and will keep you informed of significant developments.

For more information, contact Joyce Waterbury at 919.301.6715.

About Dixon Hughes: Dixon Hughes is the largest accounting firm based in the Southern U.S. and ranks among the nation's top 20. With a staff of over 1200 located in eight states, the firm provides a wide array of assurance, tax and consulting services to clients of all sizes. For more information, visit www.dixon-hughes.com.