

November 2022 Tax-Smart Dental Practice Management Strategy

The Inflation Reduction Act Will Increase Your IRS Audit Risk

Back in October of 2021, I sent out my monthly newsletter warning dentists that the Biden administration may be sending out many IRS auditors in the coming year. On August 16, 2022, President Biden signed the Inflation Reduction Act (IRA), formally known as the Build Back Better Act (BBBA), which did just that.

This act gives the IRS \$80 billion to spend over 10 years, in addition to their current funding. The IRS plans to train up to 87,000 more revenue agents and invest more in data analytics for selecting tax returns to be audited.

Considering that the level of IRS taxpayer services has been at historical lows over the past two years, and that they are backlogged by at least 6 months, you would think that they would invest this money in improving their operations and taxpayer services rather than increasing the number of audits. In my opinion, the more proper title for this tax act should have been “***the Inflation Acceleration Act.***” By hiring 87,000 new IRS agents, costing businesses and individuals significantly more in tax compliance and audits, this will clearly increase inflation and not decrease it.

The IRS stated that the funds will be used to audit more business entities, high-net-worth individuals, virtual currency transactions, and others. One of the top targeted areas is flow-through entities, such as sole proprietorships, single-member LLCs, S corporations, and partnerships, and this includes most dental practices.

Earlier drafts of this law included mandates about not targeting income earners under \$400,000. Senate rules required that this provision be taken out. Only time will tell what steps the IRS will take, but in either case, ***all dentists should be alerted that they are now at higher risk of being audited.***

As you know, our firm prides itself in helping you find every tax deduction and credit that is legally available to you, which can dramatically reduce your tax liability and help you keep more of what you make.

With that said, it is your responsibility to maintain thorough records to back up your claims to these tax deductions and tax credits. ***Without the proper documentation and records, you are more likely to end up with hefty penalties and interest, or even be found guilty of tax fraud, which can cause you to lose your dental license.***

There is a long list of audit triggers that could put you on the IRS’s radar, which includes large loans to shareholders, large travel or meal deductions, 100% business car usage, offshore transactions or foreign banking, tax-shelter losses, requesting excessively large R&D tax credits, hobby losses, and others. Just because a tax deduction is an audit trigger does not mean it’s not legitimate, so don’t shy away from taking advantage of what the law allows.

Remember, as a taxpayer, you have a constitutional right to pay the least amount of tax legally required under the law. If you keep proper records, report everything you earn, and avoid abusive

transactions, you should be able to survive the coming wave of tax audits with little or no consequences.

Maximizing your tax savings, and at the same time reducing your risk of an IRS audit, is our number one priority for you. If you have any questions or concerns, please feel free to reach out.

John J. Vento, CPA, MBA, CFP®
President & CEO
Financial Advisor

Comprehensive Wealth Management Ltd.
John J. Vento, CPA, P.C.
A Branch Office of Avantax Investment ServicesSM
95 New Dorp Lane
Staten Island, NY 10306
Phone: 718-980-9000
FAX: 718-980-9002
<http://www.ventocpa.com/>