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CLIENT ALERT

BEWARE THE IRS “WEALTH SQUAD”

By
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During this Halloween season, there is one nightmare that no business aircraft owner wants to live through – having their income tax return audited by the IRS “Wealth Squad.” The Wealth Squad is a team of expert tax auditors working in the IRS’s Large Business and International Division that is formally referred to as the “Global High Wealth Industry Group.” The Wealth Squad targets extremely high net worth taxpayers with complex tax reporting structures. Business aircraft owners often fit the profile of a typical IRS Wealth Squad target.

Going through a standard IRS tax audit is a time consuming and painstaking process. Further, an IRS audit dealing with the use of a business aircraft will involve an analysis of some of the most convoluted provisions of the Internal Revenue Code. Adding an audit by the Wealth Squad to these complexities exponentially increases the work load and pain factor associated with an income tax audit. A taxpayer facing such an audit needs to be well represented and completely prepared so that the taxpayer may provide meticulously crafted responses and thoroughly maintained documentation to clearly support all of the items of income and deductions reported in the taxpayer’s income tax returns and any income tax returns filed by related entities.

A standard IRS income tax audit starts with a letter from an IRS agent requesting a meeting and a Wealth Squad audit begins no differently. However, a taxpayer will quickly realize if the Wealth Squad is involved in the audit. The standard requests for information and documents that the taxpayer receives will be longer and more detailed in terms of the items being requested. A team of IRS staff with expertise in forensic accounting and analyzing and deciphering complex asset ownership structures, and having deep technical knowledge of esoteric tax issues including treatment of aircraft ownership works behind the scenes with the Wealth Squad auditor who is assigned to the case to closely analyze and scrutinize the taxpayers responses to these requests. The

Wealth Squad audit process will often last one year or longer and span tax returns for multiple tax years. The audit reports produced by the Wealth Squad are lengthy and typically very well written to support any proposed tax adjustments.

The Wealth Squad experts will quickly determine if a taxpayer is not well represented or thoroughly prepared. This could enable the Wealth Squad to take advantage of any missteps made by the taxpayer during the audit process. It is therefore absolutely necessary, before providing any information or documentation to the IRS, that a taxpayer facing a Wealth Squad audit assemble his or her own “dream team” of legal, accounting and technical experts to address the issues that will arise during the course of such an audit. One essential member of this team of experts is an experienced tax attorney who has handled Wealth Squad audits and who has relationships with the other types of experts that the taxpayer will need. Assembling such a team at the inception of the audit process will help to minimize the risk of IRS challenges of deductions and other items reported in a taxpayer’s income tax returns. This will, in turn, bolster the taxpayer’s chances of successfully navigating the Wealth Squad audit process.

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