

CHANGE IN STATUTE OF LIMITATIONS

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The IRS generally has 3 years to audit your income tax returns. The IRS could extend the audit period to 6 years if “gross income” was underreported by 25%. The definition of “gross income” in the tax code was not clearly defined. There have been numerous tax court rulings on the definition of “gross income”. Some courts have interpreted the tax code to mean gross income before expenses/costs. Other courts have interpreted the

definition to be net taxable income or net gain.

Congress recently clarified the definition of “gross income” in the tax code to be net taxable income or net gain in determining if income was under reported by 25%. This change will make it easier for the IRS to extend their audit period to 6 years. This rule applies to all tax returns filed after July 31, 2015.