

FORENSIC FORUM

Focus on Fun

1. New IRS Substantiation Requirements

- For meals, a menu must be submitted, showing items ordered and prices. If the menu is in a foreign language, an English language copy must be signed by an interpreter and certified by a notary public.
- For home entertainment, the total number of drinks, if any, and the total number of ounces of liquor, if any used, must be shown, separated by brands. Where food is involved, an estimate of the leftovers must be deducted from the cost. When laundry and cleaning are charged under entertainment, the amount must be prorated to include only the portion of dirt accumulated during the entertainment.
- In the case of flowers sent to a patient in the hospital who dies before the patient can sign a receipt, you will need a notarized statement from the nurse in charge showing his/her name and title and giving the date, time, type and number of flowers. In the case of mixed bouquets, the color, type and number of each flower must be shown; however, greenery need not be listed as this is usually furnished free.

2. As reported in a national newspaper, but with the names changed so as to avoid embarrassment, a California accounting firm provided a specimen financial statement (that is a proforma type statement, with a shell indicating the type of financial statement, and x's in place of numbers) to a business owner who subsequently became a client of that accounting firm. Some months later, that client called a partner in the CPA firm to complain that the financial statement made no sense – the Company's name was missing, and instead there was just all of these x's and no numbers. The partner was perplexed since the firm had not done a financial statement for that client. The client had submitted the specimen statement to its bank – a rather large bank – in applying for a \$50,000 loan. The icing on the cake is that with all of its shortcomings - the overwhelming number of x's, and that the specimen financial statement indicated that the Company's business was (and this is a quote) “company is a California corporation engaged in the promotion and sale of xxxx”. - the bank gave the Company the requested loan.

3. An IRS agent who allegedly harassed taxpayers was sued for causing their mental anguish and violating their constitutional rights to due process during a tax audit. It was alleged that the IRS agent harassed the taxpayers by inventing \$90,000 of gross income, intentionally assessing them twice on the same income, repeatedly demanding useless documentation and accusing them of hiding money. At one point, the IRS agent demanded that the taxpayers empty their pockets so that he could count their money. The agent was also quoted as having stated “You don't think I am going to spend that much time on this audit and not come up with a considerable sum of money due and owing.” Further, in what the Court labeled the “coup de grace”, the agent delivered the audit report on Christmas Eve (obviously, had the taxpayers not been Christian this wouldn't have been such a big deal).