

## Tax Audit Environment

During tax season, McGuire Sponsel would like to equip taxpayers with the information needed for a successful audit defense. We continue to experience success protecting clients' cost segregation, R&D Tax Credit, and IC-DISC studies and would like to emphasize some key points to remember for each study.

### Cost Segregation Studies

McGuire Sponsel has successfully defended numerous cost segregation studies during audit. These audits have included our own studies and competitors' studies that we have been hired to defend. Our responsibility is to defend the positions taken, while educating taxpayers along the way. The focal point of the audit is whether the cost segregation study uses an accepted method of depreciation for federal tax purposes. A common issue the IRS currently has with cost segregation studies is the lack of consistency in the studies and the absence of bright-line tests for distinguishing what is 1245 property and what is 1250 property. Historically, the IRS takes their tax position based on prior court decisions. However, at times the court cases can be contradictory. Since depreciation law goes back many years the courts have not always been consistent in their treatment of property. It is important to know how the courts arrived at their decisions in each case, and how the IRS views the decision. McGuire Sponsel has an excellent reputation when it comes to audit defense and we work hard to maintain this standing.

### IC-DISC

McGuire Sponsel IC-DISC tax returns and commission calculations are performed in compliance with all relative, governing Internal Revenue Tax Code and United States Treasury Regulations, including, but not limited to, Code and Regulations Sections 991 through 996, as well as the IC-DISC Audit Guide of the Internal Revenue Service. McGuire Sponsel routinely records, supports and preserves the documentation of all client information requested and work performed to the meticulous criteria required by the IRS' contemporaneous documentation standards. To date, McGuire Sponsel has successfully defended numerous IRS challenges to various client claims, several of which have been on the Appeals level. Though currently not a subject of increasing IRS scrutiny, McGuire Sponsel has instituted best practices gained through years of practice experience to have a sure and ready defense of the work completed on behalf of its IC-DISC clients.

### Research and Development Tax Credits

A research and development (R&D) tax credit audit is generally centered on proving the relationship between QRAs and QREs. Though, the IRS favors the project accounting method, the departmental or activities accounting method is still acceptable. However, it is imperative when using the activities approach, the credit be substantiated with contemporaneous documentation. McGuire Sponsel creates conservative



**Our due diligence at the beginning of an engagement reduces uncertainty and protects clients' claims.**

– TJ Sponsel  
Managing Director  
McGuire Sponsel



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and defensible R&D research credits that are sustainable upon audit. If an audit does occur, McGuire Sponsel will work to satisfy examiners' requests and protect clients' research credits.

## **Audit Phases**

In the event of an audit, experienced CPAs at McGuire Sponsel communicate directly with the IRS to answer questions and ensure accurate information is being conveyed. Additionally, we respond to any information document requests (IDRs) and take the burden off CPA firms. Our objective is to maintain clear communication between clients, CPA firms and the IRS.

The typical phases of an audit include:

1. Taxpayer/client receives Notice of Examination
2. Taxpayer/client contacts McGuire Sponsel
3. Execution of power of attorney
4. McGuire Sponsel corresponds directly with IRS to answer questions and resolve issues
5. In the event of an adjustment or disallowance, there is an option to take the IRS decision to Appeals.

Communication is essential. Many of the IRS' questions can simply be answered so a decision can be agreed upon quickly. Other questions may be more difficult to interpret and require more in-depth discussions. McGuire Sponsel maintains an open dialogue with the IRS and works to defend our taxpayers' positions.

McGuire Sponsel's studies are compiled to stand up to IRS scrutiny. We work with clients to address any foreseeable questions the IRS may have with a study. Our due diligence at the beginning of an engagement reduces uncertainty and protects clients' claims.

