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Memorandum

To: All Realtor Clients  
From: Gregory Taranto, CPA  
Date: 10-20-10  
Re: NJ Audit Risk

Dear Clients:

I attended a NJ Tax Seminar yesterday where Michael Bryan, the Director of the NJ Division of Taxation, spoke about many issues facing the State, its taxpayers and the preparers of returns.

Of significance to you, is that the State has put Realtors in the top 5 audit segment, and for the first time in recent memory, has made income tax a higher priority than sales tax for a target in the top 5 segment. The top 5 (6 really) for the next few years: Realtors, medical practices, golf courses, parking garages, restaurants (8 straight years), and residency status.

Obviously, of concern to you, is what they are looking for in your audit. First and foremost is auto mileage logs and then entertainment, business and closing gifts, and cell phones. They will be auditing primarily 2007 and 2008 returns because of your income was significantly higher then, which would generate a higher rate on any findings which would then be extrapolated for a 4 year window (2006-2009).

Of concern to your clients: residency status. The Division believes that many residents are "leaving without selling" and are claiming that they live in another state for more than 1/2 the year. The Division is going to look at the 'moving van' test -- did the taxpayers move their memorabilia and photos and cherished belongings to their 'new' home. If not, expect a fight. Remember one important avenue they will look into is the amount of days spent in the non NJ home. It is imperative that at least 190 days are spent in that new home. Do not include vacation, travel, etc. as days there. The Division will want to see contemporaneously kept records indicating the actual days spend where, with travel logs. This area of audit has been looked at by each of the last four Governors and has been dabbled in by their tax teams. The findings and Judicial rulings are paving the way for more aggressive looks by the Division.

Please make sure you keep very accurate records. As always, contact me if you need my assistance.

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