

## Surviving an Audit

Even the most honest of taxpayers can be left trembling at the thought of an IRS audit but your tax preparer can help. Together with your tax professional, you've got to arm yourself with information. You should understand what the audit process is all about, why *your* return was audited, what your rights and responsibilities are and how you can appeal the findings.

### **An audit is not an accusation of wrongdoing**

An IRS audit is an impartial review of your tax return to determine its accuracy--it's not an accusation of wrongdoing. However, you must demonstrate to the IRS that you reported all of your income and that you were entitled to any credits, deductions, and exemptions that are being questioned now.

The IRS must complete an audit within three years of the time the tax return is filed, unless tax fraud or a substantial underreporting of income is involved.

### **Certain returns run a greater risk of audit**

Several factors can lead the IRS to single out your return for an audit. For instance, taxpayers who are self-employed, receive much of their income in tips, or run cash-intensive businesses face a greater likelihood of audits. The IRS also pays more attention to professionals such as doctors, lawyers, and accountants (who often run their own businesses and do their own bookkeeping). In addition, if your itemized deductions in several major categories--medical and dental expenses, taxes, charitable contributions, and miscellaneous--are greater than average, you'll have an increased chance of being audited. Other red flags may include:

- A return that is missing required schedules,
- A return that is missing a required alternative minimum tax form,
- A return signed by a preparer associated with problems in the past,
- A return reporting income of at least \$150,000.

### **There are three types of audits**

If you are to be audited, the IRS will inform you by letter. There are three types of audits:

- A correspondence audit: This is for minor mistakes and requires only that you mail certain information to the IRS. For example, maybe you forgot to attach a Schedule C to your income tax return. The matter will be closed if the IRS is satisfied with your paperwork.
- An office audit: Here, you'd typically bring your tax-related records to an IRS office for examination. For example, if you claimed an unusually high deduction for medical expenses, the IRS may want to see your medical bills and canceled checks, among other things.
- A field audit: Here, the auditor generally visits your home or business to verify the accuracy of your tax return. It may be possible for the auditor to visit the office of your representative instead.

## **Know your rights regarding the audit**

You have several rights when you're involved in an audit. These include:

- The right to an explanation of the audit process
- The right to representation by an attorney, CPA, or enrolled agent (EA)
- The right to claim additional deductions that you didn't originally claim on your tax return
- The right to request an opinion from the IRS's national office on specific technical issues that arise during the audit

## **Audit survival tips**

Consider the following when you are audited:

- Request a postponement (if you need it) to gather your records and put them in order,
- Be sure to read IRS Publication 1 (Taxpayers' Bill of Rights) before your audit,
- Before your initial interview with the IRS agent, meet with your tax preparer representative (if any) to discuss strategies and expected results,
- Bring to the audit *only* the documents that are requested in the IRS notice,
- Be thoroughly prepared--if your records clearly substantiate the items claimed on your return, the agent won't waste time conducting a more in-depth audit,
- Be professional and courteous (and expect the same treatment in return),
- Do not volunteer information to the IRS agent; if you have a representative, he or she should respond to the agent's questions,
- Don't lie,
- Keep detailed records of any materials that you submit to the agent and of any questions asked by the agent,
- Ask to speak to the auditor's supervisor if you think that the agent is treating you unfairly,
- When you get the examination report, (ask your representative to) call the auditor if you don't understand or agree with it,
- If you don't agree about the tax liability, meet to see if a compromise can be reached.

## **You can appeal if you disagree with the audit result**

You can either agree or disagree with the auditor's findings. If you agree, you'll complete some paperwork and pay what's owed. If you disagree with the auditor, the issues in question can be reviewed informally with the auditor's supervisor. Or, you can appeal to the IRS Appeals Office, which is independent of the local office that conducted the audit. You can appeal the auditor's findings by sending a protest letter to the IRS within 30 days of receiving the audit report. If you do not reach an agreement with the appeals officer, you may be able to take your case to the U.S. Tax Court, U.S. Court of Federal Claims, or U.S. District Court where you live.

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