

IRS Audits – Don't Panic!

*What You Need to Know
About IRS Audits*

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Normally, the IRS accepts returns as they are prepared. Some returns are selected for examination, or 'audit', to determine if the income and expenses are being reported accurately. This does not necessarily mean that anything is incorrect; it could have been chosen randomly. If this happens to you, don't panic, dig out the return being audited and either call your tax preparer or, if you prepared the audit yourself, review and prepare for the audit.

Why me?

The IRS selects returns for audit in a number of different ways:

- **Computer Scoring** – Each year a computer program is used to assign your return a numeric score. If your score changes drastically from one year to another, this could prompt an audit.
 - **Third Party Tax Documents** – Returns are accompanied by any number of documents from third parties. Examples of these documents include 1099s, W2s, K-1s, and 1098s. If the numbers you reported don't match the numbers included on these types of documents, the difference may prompt an audit.
 - **Public Information** – Financial information reported in newspapers, magazines or public records may prompt an audit if the information does not match information contained in returns.
 - **Referral** – Yes, you can report your neighbor. But don't worry, this information is evaluated and tested for accuracy before an actual audit is initiated.
 - **Random Selection** – Returns may be selected for audit randomly! You have absolutely no control over this.
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Now what?

You open your mail and there it is – a letter from the IRS. This is your Notification of Examination letter. This letter is extremely important. Do not ignore it or put it off. If you have a paid preparer prepare your returns, fax it to them right away.

This letter will contain a wealth of information. It will tell you the type of audit you are about to go through. They may have already audited your return and are notifying you of the changes they have made that will affect your refund, or payment due. They may also be requesting documentation of proof of income or credits that you have taken.

The next level of an audit would be a meeting at your home, place of business, your attorney's office, your accountant's office, or at your local IRS office. You are encouraged to bring your tax preparer with you and the IRS will provide you with a list of items you need to come prepared with.

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If you want someone to represent you in your absence then you need to have a prepared power of attorney.

Ok, I agree.

The examination is over and either you are receiving more money back or you owe more money, but everything was explained and you agree. Then it is basically over except for providing payment to the IRS or cashing a check from the IRS. Make sure to note the changes so that next year the same mistakes are not made.

No, I don't agree.

During the examination, your rights to appeal will be explained to you. You can immediately ask to speak with the supervisor if the audit takes place at the IRS office. If you are not at a local IRS office then the examiner will take your case notes and forward it to the correct office.

If you feel that you need further help you can always contact the Taxpayer Advocate Service. They are independent of the IRS and help taxpayers resolve problems that you feel have gone on too long, or if you are about to suffer a hardship due to the tax laws.

I still don't agree.

In this case there is always tax court. This is normally reserved for businesses and individuals with a large tax burden and sufficient funds to pay an attorney. The results of cases in tax court help to set the standards for any cases that come after.

How do I prevent an audit?

DOCUMENTATION!

Always have documentation for your expenses and credits.
Save those receipts!

When in doubt, ask a professional. Try to choose a private company rather than a chain preparation company. Statistics show that there are less errors in private companies and employee turnover is less.

