

EASING THE FEAR OF AN IRS AUDIT

BACKGROUND

Approximately 750,000 tax returns are audited each year. This means a taxpayer's chance of being selected for an IRS audit is 1 in 170, a 20% increase over the 2000 tax filing season. In addition, the IRS selected an additional 50,000 returns from the 2001 tax filing season under a "national research program" to collect data to be used as "guidelines" for checking future returns.

A large number of tax returns are subject to a computer selection process known as Discriminant Function System (DIF). This process works by assigning a number value to certain key items on your return. If the total number score exceeds the minimum set by the IRS, the computer will single out the return. The return will then be assigned to an IRS agent to determine its audit-worthiness.

CORRESPONDENCE AUDITS

Don't despair...an IRS letter requesting additional information from your tax return does not equal guilt; you are merely being asked to substantiate your return.

The majority of audits are correspondence audits and do not require an IRS office visit. When a possible error is found, a letter is generated by the IRS and sent to the taxpayer explaining what was uncovered, the proposed correction, a detail of any new tax owed, interest and penalties, and how and when to respond.

IRS REQUESTED AUDIT OFFICE VISIT:

1. Do not ignore the notice. Follow the instructions on the audit letter regarding setting up, or confirmation of the date, time, and place of your appointment. If you are unable to keep the appointment, notify the auditor and set up a new appointment.

2. If you used a tax professional, contact him or her as soon as possible and explain the situation. Many tax professionals will accompany you to an IRS office visit. Though they cannot act as your legal representative, he or she can explain how your return was prepared.
3. You have the choice of taking a representative with you or sending the representative by himself or herself. Consider this choice carefully. If you think you might panic, or lose your temper, or do anything to hurt your own case, you might want to let the representative go alone.

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— Jackie Perlman,
CPA, Senior Tax
Research Analyst

4. Research all relevant data covering the area being audited. Locate receipts, checks, and any other pertinent records. Run a tape comparing totals to amounts shown on your tax return. (Your tax professional should have all necessary records.)
5. Be organized. Only take those documents that the IRS has requested, plus any necessary supporting documents to the audit.
6. You will be given a copy of Publication 1, Your Rights as a Taxpayer. You must read this publication so that you will understand the audit process, your rights, and how to proceed if the audit does not go your way.
7. Answer the auditor's questions with the shortest possible response. Stick to the facts. Do not volunteer information or answer a question that was not asked.
8. You may agree, partially agree, or disagree with the auditor's findings.
9. You may request a supervisory conference or appeal the results of the audit.
10. Stay calm. The auditor won't bite you! He or she is just doing a job.