SURVIVING AN IRS AUDIT

Opening your mailbox, you sift through the junk mail and utility bills and then notice the letter from the Internal Revenue Service, and your heart stops. Tearing it open and frantically scanning the first paragraph, the IRS informs you that your return has been selected for an audit. You start thinking about the return you filed. Did you forget to report some income or maybe the deductions you claimed looked suspicious? You joked with your spouse about claiming the family dog as a dependent, and now you are trying to remember if you actually did claim the dog!

No matter how scrupulously honest you are and regardless of the painstaking accuracy used to gather your tax records and prepare your tax return, an audit letter from the IRS makes knees go wobbly.

What should you do? How should you respond?

First of all, take a deep breath. You are not being accused of doing anything wrong. But, you will have to provide the IRS with some information.

Pay close attention to the IRS letter. Which year is being examined? It may not be the return you most recently filed, but could be a return from a year or two before. Also, note how long you have to respond to the letter, and make sure you do respond before any deadlines.

Normally, an IRS audit will be within three years of the time you filed your return. For example: Your return for 2011 was due by April 15, 2012. Let’s suppose you extended the return and did not actually file it until October 15, 2012. Three years from the filing date would be October 15, 2015, so after that date, your 2011 return would not normally be subject to an audit.

Today, those clever IRS computers review documents sent to them by employers, investment firms, etc. and match them with what you report on your tax return. If there is a discrepancy, it may be what triggered the IRS letter.

Sometimes it is a simple fix and may not result in you owing additional taxes, and could even result in a refund to you. For example: You sell an investment for $10,000 that originally cost you $12,000, resulting in a $2,000 loss. If this is not reported on your tax return, the IRS may simply assume that your cost was zero, resulting in a $10,000 profit.

Self-employed individuals and those who claim higher-than-average deductions for medical expenses, charitable contributions or miscellaneous items are also at a higher risk of being audited.

Provide complete information and documents for the items the IRS is questioning, but if they are not asking about your charitable contributions, then don't respond with information about them.

There are three types of audits:

- A **correspondence audit** is for more minor items, such as forgetting to attach a particular schedule to your tax return. You just have to mail the requested information back to the IRS.
- With an **office audit** you have to bring your tax-related documents to an IRS office.
- A **field audit** is when the IRS auditor visits your home or business.

You can certainly respond directly to the IRS, but using an attorney, enrolled agent, or CPA may be a wiser choice. A representative will be familiar with the audit process and less emotional.

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