

IRS Audits

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IRS will audit hundreds of thousands of individual tax returns this year. Although that represents but a small percentage of all returns filed, this is little consolation if your return is among those selected for audit. But with proper preparation and planning, you should fare well.

The purpose of the audit is to verify items reported on a tax return. The easiest way to survive a tax audit is to prepare for one in advance. On an ongoing basis you should systematically maintain documentation—invoices, bills, cancelled checks, receipts or other proof—for all items to be reported on your tax return. Keep all your records in one place and hold on to your calculations.

The government normally has three years within which to conduct an audit, and often the audit won't begin until a year or more after you file your return. So don't trust your memory. Leave a good trail. If you have to go back to your records later, you should be able to backtrack all of the entries on your return.

The scope of an audit depends on the complexity of the return being examined. A return reflecting business or real estate income and expenses is likely to take longer to audit than a return reflecting only salary income. You can facilitate matters by having the necessary records arranged in an orderly and systematic fashion for presentation to the IRS agent. The typical IRS agent is experienced and knows his job. Trying to outsmart the agent or sidestepping questions is likely to create friction and raise suspicions in the agent's mind.

Representation. Even if you prepared your own return, it is advisable to have a tax professional represent you at an audit. Your representative knows what issues the IRS agent is likely to focus on and can prepare accordingly. More importantly, a tax professional knows that in many instances IRS agents will take a position (for example, to disallow deduction of a certain type of expense) even though courts and other authority have expressed a contrary opinion on the issue. Because the representative knows and can point to the proper authority, the IRS agent may be forced to throw in the towel.

If you are facing a tax audit or simply want to improve your recordkeeping, contact a tax professional immediately.