

Abstract: Many people feel a great sense of relief wash over them after their tax returns are completed and filed. Unfortunately, even professionally prepared and accurate returns may sometimes be subject to an IRS audit. This article describes why, and how to respond should an audit notice arrive in the mail.

So you just filed your taxes — could an audit be next?

Like many people, you probably feel a great sense of relief wash over you after your tax return is completed and filed. Unfortunately, even professionally prepared and accurate returns may sometimes be subject to an IRS audit.

The good news? Chances are slim that it will actually happen. Only a small percentage of returns go through the full audit process. Still, you're better off informed than taken completely by surprise should your number come up.

Red flags

A variety of red flags can trigger an audit. Your return may be selected because the IRS received information from a third party — say, the W-2 submitted by your employer — that differs from the information reported on your return. This is often the employer's mistake or occurs following a merger or acquisition.

In addition, the IRS scores all returns through its Discriminant Inventory Function System (DIF). A higher DIF score may increase your audit chances. While the formula for determining a DIF score is a well-guarded IRS secret, it's generally understood that certain things may increase the likelihood of an audit, such as:

- Running a traditionally cash-oriented business,
- Having a relatively high adjusted gross income,
- Using valid but complex tax shelters, or
- Claiming certain tax breaks, such as the home office deduction.

Bear in mind, though, that no single item will cause an audit. And, as mentioned, a relatively low percentage of returns are examined. This is particularly true as the IRS grapples with its own budget issues.

Finally, some returns are randomly chosen as part of the IRS's National Research Program. Through this program, the agency studies returns to improve and update its audit selection techniques.

Careful reading

If you receive an audit notice, the first rule is: Don't panic! Most are *correspondence* audits completed via mail. The IRS may ask for documentation on, for instance, your income or your purchase or sale of a piece of real estate.

Read the notice through carefully. The pages should indicate the items to be examined, as well as a deadline for responding. A timely response is important because it conveys that you're organized and, thus, less likely to overlook important details. It also indicates that you didn't need to spend extra time pulling together a story.

Your response (and ours)

Should an IRS notice appear in your mail, please contact our office. We can fully explain what the agency is looking for and help you prepare your response. If the IRS requests an in-person interview regarding the audit, we can accompany you — or even appear in your place if you provide authorization.

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