

Abstract: The IRS recently announced it intends to hire thousands of new employees as part of a tax-enforcement push, which could mean an uptick in audits sometime soon. The best way to survive an IRS audit is to prepare for one in advance. This article discusses what might trigger an audit, how taxpayers are likely to be contacted and who can help.

Being prepared for an IRS audit

The IRS recently announced it intends to hire thousands of new employees as part of a tax-enforcement push. This could mean an uptick in audits sometime soon, likely focused on wealthier individuals and business owners. (Some tax returns are chosen randomly as well.)

The best way to survive an IRS audit is to prepare for one in advance. On an ongoing basis, you should systematically maintain documentation — invoices, bills, canceled checks, receipts and other proof — for the items that you report on your tax return. Maintain and back up these records safely. With that said, it also helps to know what might catch the tax agency's attention.

Audit hot spots

Certain types of tax-return entries are known to the IRS to involve inaccuracies, so they may lead to an audit. One example is significant inconsistencies between tax returns filed in the past and your most current tax return. If you miscalculate deductions or try to claim unusually high ones, your return could be flagged. And if you're a business owner, gross profit margin or expenses markedly different from those of similar companies could subject you to an audit.

Certain types of deductions, such as auto and travel expense write-offs, may be questioned by the IRS because there are strict recordkeeping requirements involved. In addition, an owner-employee salary that's inordinately higher or lower than those of similar and similarly located companies can catch the IRS's eye — especially if the business is a corporation.

Contact methods

The IRS normally has three years within which to conduct an audit, and often an audit doesn't begin until a year or more after you file a return. If you're selected for an audit, you'll be notified by letter. Generally, the IRS doesn't make initial contact by phone. If there's no response to the letter, the agency may follow up with a call. Ignore unsolicited email messages about an audit. The IRS doesn't contact people in this manner; these are scams.

Many audits simply request that you mail in documentation to support certain deductions that you've claimed. Others may ask you to provide receipts and other documents to a local IRS office. Only the harshest version, the field audit, requires you to meet personally with one or more IRS auditors.

Keep in mind that the tax agency won't demand an immediate response to a mailed notice. You'll be informed of the discrepancies in question and given time to prepare. You'll need to collect and organize all relevant income and expense records. If any records are missing, you'll have to reconstruct the information as accurately as possible based on other documentation.

How we can help

If the IRS chooses you for an audit, our firm can help you understand what the IRS is disputing (it's not always clear) and then gather the documents and information needed. We can also help you respond to the auditor's inquiries in the most expedient and effective manner.

Above all, don't panic! Many audits are routine. By taking a meticulous, proactive approach to how you track, document and file your tax-related information, whether for an individual or business return, you'll make an audit easier and even decrease the chances that one will happen in the first place.

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