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Balance *sheet*

Individual Tax Audits

By Mark L. Schroeder, CPA

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 from the filing due date of the return within which to conduct an audit, and often the audit will not begin until a year or more after you file 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 often 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 a deduction of a certain type of expense) even though courts and other authorities 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, please contact our office as we are ready to assist you as well as help with any other aspect of your taxes.

Items presented are not intended to be technically complete. Additional information may be required to make an informed decision.
You cannot rely upon this information for avoiding tax penalties.