



CLIENT TALK

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April, 2001

IRS TAX AUDITS

IRS AUDITS CAN BE FOUGHT!

Threat of an IRS Audit or State Tax Audit can justifiably strike fear into the potential audit victim. Audits are for all of the income and expenses for a particular year. Although W-2 salaried employees, without tax advantaged investments, have little risk from an audit, businesses and their owners have more complicated transactions and more to lose. The IRS Revenue Agent will challenge both the income claimed and the expenses deducted. In addition to tax increases, substantial penalties and interest may be imposed. Big increases in tax dollars owed and even claims of civil tax fraud are the potential result of a mishandled tax audit.

TYPES OF AUDITS

There are three general types of IRS Audits:

- Mail Audit
- Office Audit
- Field Audit

MAIL AUDITS

The Mail Audit is for a discrepancy within the return (such as a calculation error) or based upon third party information such as 1099's. Usually, these audits merely require submitting backup information, documents, and an explanation. Typically, this type of audit requires minimal assistance.

OFFICE AUDITS

An Office Audit normally is for W-2 employees and some small business owners. The taxpayer is required to bring substantiating documentation for the return to the local IRS

Office for analysis. An office audit is as serious as a field audit, just on a smaller scale of documents. Immediately upon receipt of an Office Audit Notice, the taxpayer should consult a tax lawyer.

FIELD AUDITS

Field Audits, where one or more IRS Revenue Agents come to a taxpayer's office are usually reserved for businesses. The auditor must go to the office of the taxpayer because the documentation and legal issues are voluminous and complex. The taxpayer should expect to obtain legal representation as well as further accounting assistance to prepare for the audit.

YOUR CHANCE OF AN AUDIT IS SMALL

Self-employed taxpayers are more likely to be audited than wage-earners. According to auditing data from 1998, between 1.82% and 3.25% of self-employed taxpayers were audited. This is compared with lower auditing rates of between .58% and 1.66% for 1040 and 1040A filers.

AUDIT PREPARATION

Preparation can assure a more successful result:

- Engage a tax attorney, in addition to your accountant to represent you during the audit.
- Defer all of the Auditor's questions to your tax attorney and accountant.
- Gather your accounting records and all tax returns for the years being audited.