

Don't be afraid of those IRS audits

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The IRS has been increasing the number of tax returns they are auditing in an effort to close the tax gap.

Tax practitioners have seen their clients receiving more notices from the IRS as a result of this initiative.

Once the taxpayer gets over the initial shock of actually receiving a dreaded notice from the IRS, the next emotion that usually sets in is panic. What do I do? What does this mean? Why are they contacting me?

In reality, IRS audits don't always happen the way we imagine them, with visions of being dragged down to the IRS office with boxes of receipts to fight for our deductions.

The IRS commonly will do a line audit. This entails cross-referencing certain information reported by the taxpayer on their return against the information reported by third parties to the IRS.

This is often computer-generated and if there are inconsistencies in reporting, the taxpayer will receive a letter from the IRS.

It is important to know when preparing your return that the IRS computer system does do matching on many forms, including 1099s, W-2s and mortgage interest forms, or 1098s.

If you receive a letter from the IRS, do not panic. The first step is to assess exactly what information they are looking for clarification on.

The first page of the notice in the upper right-hand corner will tell you which tax period is under review.

This is important to note, as the IRS can take quite some time to notify you. For example, it would not be uncommon to receive a notice now for the tax year 2005.

The letter will state on subsequent pages the information reported to them, the information reported by you and the difference between the two.

The next step is to find your supporting documentation and verify if what you reported was actually correct. There is a page within the notice for you to fill in and state whether you agree or disagree with their changes.

If upon examining your documentation you realize you made an error and you agree with their changes, simply mark the form indicating you agree and send it back to the IRS with the required payment. There is no need to call them.

If you do not agree, then you should mark the form accordingly, write a letter explaining your position and include copies of your documentation. The IRS will follow up with you after receiving your response.

The line audit is only one type of audit done by the IRS. Should you receive a letter stating your entire tax return is under audit, contact your tax preparer. If you prepared your own return, you may want to consider engaging a tax professional for assistance.



Christina Klein, CPA

Christina Klein is a certified public accountant and a partner in Klein, Hall & Associates, LLC. Klein Hall is the recipient of the Naperville Area Chamber of Commerce Small Business of the Year Award in the professional category. She can be reached at Cklein@KleinHallcpa.com or 630-898-5578.