

Tips on Avoiding an IRS Audit

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In your mail is a notice from the IRS inquiring about your tax return or selecting your return for examination. Understandably one of your first questions is, “Why me? Why did my return get selected for an audit?”

Some returns selected for an IRS audit are done so based on the findings of an IRS computer-generated program that gives returns a numeric “score.” This is referred to as the Discriminant Function System (DIF) score. This program compares your deductions to others in your income bracket and weighs the differences. The results are used to select returns with the highest probability for change. The DIF formula also considers where you live, your family size, and your profession.

The relationship between the amount of deductions claimed, such as mortgage interest or charitable contributions, should be reasonable based on your income. As with all amounts on a tax return, you must be able to prove your deduction.

The Unreported Income DIF (UIDIF) score rates returns for the potential of unreported income. The highest scoring returns are screened by IRS agents and could be selected for an audit. It is then when a professional tax preparer can benefit his/her client in identifying unusual situations.

Other reasons you are more likely to be audited have to do with errors found through the information matching program. Returns can be selected for examination if the amounts reported from a W-2 or from a 1099 form do not match the income reported on the forms provided to the IRS from employers, banks, or brokerage firms. Unless the omissions of income are large or the IRS has reason to believe they are intentional, those examinations are generally handled through inquiries and by mail.

Returns may be selected for an IRS examination when they involve transactions with other taxpayers. For example, when the IRS audits an S Corporation or a Partnership return, the likelihood of also examining the individual tax returns of its shareholders or partners increases.

Verifying the accuracy of the social security numbers for yourself, your spouse, and your dependents is an important step in avoiding issues with the IRS. In addition, verifying the accuracy of the math and the reported income amounts are easy ways to avoid a second look by the IRS. E-filing can assist in identifying errors in social security numbers.

Depending on the inquiry, an examination can be conducted by mail correspondence or through an in-person interview process. The interview can be held at an IRS office or the taxpayer’s home, place of business, or accountant’s office. The IRS notification will inform you of what records are needed. While taxpayers have the right to represent themselves, we recommend them authorizing their tax preparer to act on their behalf.

When asked for additional records, be organized and prepare the records requested. Know and follow record retention guidelines recommended by the IRS.

Be able to substantiate each amount on your tax return, particularly each deduction on your return. Unless the IRS finds fraud or significant underreporting, the audit must be complete within three years of the time the tax return is filed.

As you can see, organized records along with an accurate tax return will keep your return away from IRS scrutiny. If you have any questions, please contact us. ♦