



# AMERICAN TAX RESCUE

## TAX AUDITS

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An IRS tax audit is when the IRS tries to confirm the details of your tax return to determine its accuracy. Everyone has heard that the statistics of getting selected for an audit are against you. It is true that the statistics are low, in fact, it is about 1 in 75 people will get audited. Statistically speaking this means that about 80% of all people do get audited once in their working lifetime. The statistics are different for differing income levels and types of employment.

#### **The IRS Tax Audit Selection Process**

When it comes to getting selected for an audit it is not completely random. People who do get selected actually do have a high likelihood of having made an error or made fraudulent claims on their tax return. The main driving force for determining who gets audited starts with an IRS computer. The IRS computer will give each tax return a score, the higher the number the higher the potential it has for an audit. Pretty much what the computer does is find individuals with high expenses and low income. It will find that if you reported a low income and a mortgage payment of about the same, it will most likely give a high score because the likelihood of you being able to pay for regular expenses after the mortgage with your income is highly unlikely. After the computers give scores to the tax returns, these tax returns are then passed off to a human for checking and typically about 1/10th of these end up in an audit after human review.

#### **Tips If You Are Audited**

An audit is the process in which the IRS determines if you have properly reported all income and took the correct deductions. It is your responsibility to prove to the IRS that what you filed was indeed correct and you must provide supporting documents for the majority of it. The IRS will make a determination if you did the proper reporting or not and if not, they will assess you additional taxes to pay. At times, but rarely, does the IRS find that you overpaid and they will give you a refund, but don't count on it. A quick fact is that the IRS actually wins 80% of all audits, mainly because the taxpayers cannot show proper supporting documents. So, mainly the reason for the IRS assessing additional taxes is because of bad record keeping, not because of tax payers trying to cheat the system.

#### **Types of IRS Audits**

There are three different types of audits. The types of audits are mainly determined by the amount of revenue you reported. These three types of audits are: correspondence, office and field.



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## 1. Correspondence Audit:

This is the most common type of audit. This type of audit comes by mail and is done by mail. Typically, the IRS will ask you to mail certain documentation to them supporting certain items that you filed on your tax return. Normal transactions that they ask for are stock transactions, sale of real estate documentation, and details on other specific itemized deductions. Often, these types of audits happen because there is a difference from 3rd party documentation.

## 2. Office Audit:

The office audit is a meeting set up with the IRS that the IRS determines the time and specific documents that you should bring with you for support. The IRS will send a letter setting a time and date or requests that you call them up to setup an appropriate time. Mainly in these types of audits the auditors will only examine "significant" items on your tax return. During the IRS audit, the auditor may ask difficult questions about unlisted items that were on the original letter, you can tell them that you are not ready or prepared to talk about those items and they will drop them and bring them up in the second visit. Most of the time, it is good to consult with a tax professional so they can give you some needed advice so you say the correct things and give proper support.

## 3. Field Audit or Home Audit:

This is when you receive a notice that the IRS wants to come to your home or business for an audit. These are typically the most serious types of audits. The IRS top auditors are used in these types of audits. If you receive one of these audits, most likely you have earned well over 100K in your business or self-employment. If you receive one of these audits it is highly suggested that you have some type of tax expert on your side to help with the audit to ensure things flow smoother.

