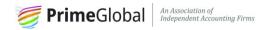


Preparing for an IRS Audit

While only a small percentage of tax returns are audited, the number is still over a million. If you get that dreaded letter in the mail advising you of an IRS audit, your first instinct is probably to panic – even if you don't think you did anything wrong. Unfortunately, the audited return is not usually the most recently filed, so it will be necessary to dig through files as old as three years prior. Instead of giving into anxiety, there are ways to prepare yourself for an IRS audit that can help the process go as smoothly as possible. To help our clients, prospects, and others who may be facing an audit, KROST has provided some preparation tips below.

- Gather all the details and audit yourself. It's important to note that the IRS letter itself will spell out what items are being questioned or where more detail is needed. Categories such as employee business expenses, charitable contributions, or casualty losses will be noted along with the types of records you will need to clear up the matter. Read the letter carefully and then go back through your records to audit yourself, including pulling together the documents that support your entries (only for the year and issues stated in the IRS notice). Whatever claims were made came from somewhere, so reconstructing the details will help arm you for the audit. Were there any obvious mistakes? Do you have receipts or other records to back up the claim? Going into the audit with all the required documents organized lets the auditor know that you want to cooperate and help things flow smoothly.
- Reconstruct any missing records. If your records aren't perfect, don't immediately concede defeat. Even the IRS understands that taxpayers can't always keep track of every related document. As needed, get copies of canceled checks from the bank, duplicate receipts, or written statements from businesses or individuals who can back up certain claims. If you can't locate written evidence for all entries, prepare an oral explanation. Chances are if you can reasonably explain how you came up with a figure even if it's not fully corroborated the IRS may accept it. If the agent tells you your records don't substantiate a deduction, ask if you have other options like mailing proof in later. Remember that the more thorough your documentation and records are in general, the more likely an auditor will cut you some slack on one or two points.
- **Get help.** You don't have to go into an audit alone or at all if you choose. This decision likely depends on the issues involved. If they're relatively cut-and-dried matters, you may be able to settle things without help. If the issues are more technical or require interpretation of the law or tax code, you will probably need assistance. In this case, you can choose to go with your representation or send them on your behalf with the proper authority. One advantage of steering clear of the meeting yourself is eliminating the possibility of saying too much, which can lead to further investigation of the tax file being audited or even prompt the IRS to review additional years.





- Know your rights (and, yes, you have rights). This is not always obvious to taxpayers who are often intimidated when the government and IRS are involved. However, the Taxpayer Bill of Rights exists for this purpose. Among other things, it gives you the right to stop an audit immediately if you decide mid-process that you want representation. For example, if topics come up that you are unprepared to discuss, you can stop the proceedings and seek help if you need it.
- Make room for compromise. On one hand, there's no need to feel pressured into settling an issue just to bring the audit to an end. However, in some instances it may save time and money to agree on a middle ground figure or for one side to concede a contested item in order to win another. If you disagree with a finding, tell the auditor and restate your position. They may be willing to compromise to close the case quickly. If you're still unhappy with the result, there are a couple options. If you've handled things by yourself so far, you can bring in professional help by requesting another meeting with the auditor to present additional evidence. You can also make an informal appeal to the auditor's manager, go to the IRS regional appeal level, or take your case to court if need be.