The IRS Audit and 10 Taxpayer Pitfalls (to Avoid)

Over the years the IRS has ramped up efforts to audit the taxpayer or businesses. Audits are completed as “field” audits which require the auditor to go to the business or the “office” audit which requests the taxpayer or business owner to go to the IRS office.

The IRS initiates the audit by sending an Audit Letter. Specifics as to what is being audited, year(s), where or how the audit will be conducted are included in the Audit Letter.

Some taxpayer “pitfalls” follow. Every “pitfall” may not be listed but efforts have been made to consider the most important.

**Pitfall 1: Avoiding the IRS**

Avoiding the audit, the IRS and any communications with them is not wise. The IRS will find you, change your tax return or resort to measures such as summoning you. **Cooperation is key to a successful audit, or resolution with the IRS.**

**Pitfall 2: Not Hiring Representation**

Hiring representation is significant. The reason most taxpayers or businesses avoid hiring a representative such as an enrolled agent or tax attorney is the cost.

There is an old adage: “You have to spend money to make money.”

**For tax representation, “you have to spend money to SAVE money”.** Not in all cases will representation save you money, but your audit should be approached knowing that your representative understands the tax laws and the inner working of the IRS. You have to know someone is at bat for you on all the important issues and no stone is left unturned when it comes to going thru your return and documents that are under audit.
Pitfall 3: Hiring a Representative Too Late

Not hiring a representative for the audit, but hiring a representative after you see the final IRS tax bill seems to happen more and more as the taxpayer tries to save money. At this point, depending on the time frame, it may be possible to file an appeal or Form OIC-L, an Office In Compromise with proof of new documents that substantiate amount owed. These forms ask the IRS to reopen the case to look at new documents discovered since the case was closed or offer a final settlement below what is due. No matter what the process used, this can be costly, more costly than using a representative from the beginning.

Pitfall 4: Not Being Prepared for the Audit

Not being prepared for the audit is like not setting your alarm for the most important job interview you ever had. The IRS will allow postponement of an audit for a total of 60 days from the date of the Audit Letter if you communicate with them, but you have to contact them within the first 10 days of receiving the Audit Letter. Otherwise a postponement may be declined. But be well-prepared for the audit. Organize receipts. Having cross-referenced folders containing receipts is a good start.

Pitfall 5: Talking to the IRS without a Representative

Never talk to the IRS if you have a representative. You hired the representative for a reason. Let them do their job. Do not approach or communicate with the IRS.

Pitfall 6: Lying to the IRS

Lying to the IRS when the IRS has documents in their possession to support their case is not a smart approach to take. Once you lie, and the IRS knows it, they wonder what else you are going to lie about, what else do you have to hide. If you do not have a representative and you lie, you probably just lost your ability to negotiate a reasonable settlement and the IRS will not be responsive to any requests for penalty reduction.
Pitfall 7: Signing Final Audit Report without Review

Signing off on a final Audit Report without your representative approving it causes the representative to ask “Why did you hire me?”. Why did you hire the representative if you are not going to allow them to do their job? Checking the final Audit Report is critical. Do not sign it until it is reviewed. And the Report cannot be ignored. “Ignoring” it is the same thing as “accepting” it.

Pitfall 8: Hiring the Wrong Representative

Hire a knowledgeable representative. Do your homework about the person or firm you hire. Check them out. Does the firm you hire do IRS representation regularly?

The Enrolled Agents at Padgett Business Services of SE MI have advanced training thru the National Association of Enrolled Agents and will conclude in November 2014, the NTPI Fellowship Program for Advanced IRS Representation. This is the highest level of advanced IRS representation training that is available. 72 hours of advanced training is required to graduate.

Pitfall 9: Paying a Large Retainer to a Firm

Paying a large retainer to a firm for representation that you know nothing about is a sign of desperation. Paying a large retainer to a firm does not mean they are, by any means, better. Calm down! Search for a reputable representative, one that does not ask for the large retainer but has a general plan for resolution and a fee schedule that fits you and your business.

Pitfall 10: Not Telling Your Spouse

Telling a spouse about the audit when the letter comes is strongly recommended, especially if you have a joint return or the spouse is involved in your business. Your spouse may be required at the meeting with the IRS or the representative.

Don’t Wait Until It’s Too Late!
Call Christy at (586) 323-2360 for IRS Audit Assistance Now!
About Padgett Business Services

Padgett is a leading accounting and tax firm that specializes in small business in SE Michigan. This local Padgett office started in 1998. We are proactive in financial and tax planning. Our list of services include IRS problem resolution, 941 issues, Offers in Compromise, State of Michigan sales tax issues, MBT, non-filed taxes, bank loan preparation assistance, full-service payroll, tax entity classifications, etc.

This publication suggests general business planning concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this article.

About Christy Federspiel, EA

The article is written by Christy Federspiel. Christy is an enrolled agent, a member of the National Association for Enrolled Agents, and is licensed by the Department of Treasury of the Internal Revenue Service to Practice before the IRS. In doing so, she represents the interests of clients and their companies in dealing with all IRS issues and concerns. She graduated from Villanova University with a BS degree in Accounting and a minor in Computer Science. Additional academic degrees include an MBA in Management from St. Louis University.

After years in computer auditing, Christy began her own consulting and accounting firm around 1982. She was Editor and Publisher of the EDP Auditor Quarterly and authored the CISA Review Manual, a guide for individuals studying for the Certified Information System Auditor exam. At that time she passed the CISA exam.

Christy focused her consulting time on installing accounting software, often replacing manual or DOS computerized accounting environments. She has consulted with large associations to small businesses.

Christy and Jack have assisted over 100 small businesses start from the ground up. Few were told to not start. They work with the visionary to develop a Business Plan (under the Action Plan) and move into entrepreneurs.