

WHAT IS AN AUDIT

An audit is an IRS investigation of you with requests for information. These requests can ask you to mail them the information, to come in to their office with the information or meet with them at your home or business for the information. Thus, the 3 types of audits are called 1) “Letter Audit”, 2) “Office Audit”, and 3) “Field Audit”. The IRS can also send you a “CP 2000” or “CP11” Notice but these are not officially “audits” – they are Mathematical Adjustments.

1. MATHEMATICAL ADJUSTMENTS IRS Notice CP 2000 or CP11

If you receive a CP 2000 or CP11 notice from the IRS you only have 60 days to respond. Look closely at the stated reasons for the IRS proposed adjustments on page 5 of the Notice under the heading “Explanation Section”. It may be difficult to determine why the IRS is making the adjustment but respond to them anyway so you protect your rights. Look at the exact line of the return to which the IRS specifies and then review very closely your records to see if you agree with the IRS adjustment. If you do not agree, you must gather the documents to dispute the error and send the IRS a letter stating your case *by certified mail*. You may have to go to the third party who sent the erroneous information to the IRS and have them correct their filings with the IRS.

The most common reason for you to receive a CP 2000 notice is because the information the IRS received from third parties doesn’t agree with an item on your return or you forgot to place an item on your return. If you do not agree with what a third party sent to the IRS, you will have to get the third party to correct their mistake. The IRS has no power to change a filed record.

Remember that this IRS inquiry is not an Audit of your return. It is simply a reconciliation of your records with theirs. They could later audit the return.

Most of your issues can be resolved by filing an amended return (1040x). Speak to your representative or call TaxHelp. But, because a Mathematical Adjustment is not an Audit, the IRS could later officially Audit you, if they desire.

2. EARNED INCOME CREDIT DENIAL

The IRS sometimes denies the Earned Income Credit to taxpayers because the records and social security numbers on the return don’t match with the IRS records. If so, gather the correct information and send it to them *by certified mail* within the time periods allowed.

The IRS also denies the Earned Income Credit because someone else has already taken the credit using the dependents or they want you to prove you are entitled to the dependency exemption and the credit. Therefore, use the TaxHelp program to gather all the required evidence to present your case. Send everything to them within the time period allowed.

The denial of the Earned Income Credit is not an audit and the IRS could later examine your records. However, you still must gather the same evidence and present it to them. The TaxHelp program shows you how.

3a. LETTER AUDIT

A Notice from the IRS requesting that information be sent to them by mail is called a “letter” audit. Look carefully at the Notice you received and determine which line of your return is in question. Then use the TaxHelp program to prepare your case. Send the documentation to the IRS *by certified mail* within the time periods requested by the IRS.

The IRS may send you a letter that they received your evidence and ask you for time to consider it. The IRS should send you a letter at some point that they have either accepted, or rejected your arguments or that they request further information. But, they may not. So, every month or so call the IRS at the number on the Notice and ask what the status is.

If the IRS doesn’t accept your evidence they will eventually send you a Statement of Income Tax Changes (Form 4549). This form is very confusing because the calculations work backwards against the items on the return. Look at the explanation pages to see what basis the IRS had for making their proposed determination. Decide if you agree with the IRS explanations and their calculations. If you do not agree you may use the TaxHelp Program to gather and send the IRS further information or legal analysis. If ultimately, you and the IRS do not agree then you will either have to petition Tax Court, Appeal the decision within the IRS or pay the amount owed and file a claim for refund before suing the US government in US District Court.

3b. OFFICE AUDIT

A notice from the IRS asking you to call and set an appointment so you can come into their office with your evidence is called an “office” audit. Use the TaxHelp program to collect your evidence and prepare your case.

If you do not want to meet with the IRS face-to-face you can refuse, politely. The IRS can force you to come in by issuing you a Summons but this is rare. So, if you get a Summons, this is serious and you should have an attorney represent you.

If you decide to meet with the IRS agent, be polite and withdrawn. Have your evidence and be prepared. If, however, the IRS asks you anything that you don’t know or don’t feel comfortable about, tell him or her that you’re not prepared and that more research is necessary. Don’t sit around chatting with the IRS and do not joke around with them. Do not argue with your spouse, business partner or tax return preparer in front of the IRS.

If the IRS doesn’t accept some or all of your evidence they will eventually send you a Statement of Income Tax Changes (Form 4549). This form is very confusing because the calculations work backwards against the items on the return. Look at the explanation pages to see what basis the IRS had for making their proposed determination. Decide if you agree with the

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3c. FIELD AUDIT

This is a more serious type of audit and you should consider getting an attorney to represent you. Sometimes the IRS makes unannounced visits to a home or business. In this case, do not let them into your home or business but get their identifying information and inform them that you need time to prepare your case and consult with a lawyer. Do not give them your telephone number and do not put it on your letters to the IRS. Make them do everything in writing. Also, consider whether you want to do a Freedom of Information Act Request.

You can resist or refuse a field audit. The IRS could issue you a Summons compelling compliance. If you initially resist a field audit you can agree to comply later. If you resist, send a letter to the IRS asking for the specific reasons why it is necessary for them to come to you.

If you decide to allow the IRS to come to your home or business and you do not hire an attorney, you should probably record the interview. Hurry the Auditor along and do not talk idly with him or her. Request a copy of the auditor's notes. Do not give the IRS more information than they seek. Do not answer any questions that are not asked. Simply point to the evidence as you have provided it and state that any other evidence will be coming.

If at any time you do not want to continue the interview, tell the Auditor you wish to seek legal counsel and terminate the conversation.

The end of the interview is not the end of the Audit. Do not allow the Auditor to come to your home or Business again. From this point of time on, all contact with the IRS should be through letters. Make each letter very short and only include further evidence to support your claims.

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