



Fewer than 1% of personal returns overall were audited in 2018. Higher-income filers saw greater odds.

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Nothing strikes fear like a letter from the IRS announcing that you're going to be audited. You wonder what you might have done wrong, what documents you'll need to prove your case and how much this might cost you financially and emotionally.

Exhale. Truth is, the odds are in your favor. Overall, less than 1% of total returns filed were audited in 2018, the year in which the latest data is available, says Daniel Bernard, an associate attorney with Twomey, Latham, Shea, Kelley, Dubin & Quarataro in Riverhead. Some types of returns are audited more than others. For example, approximately 0.64% of personal returns were audited in 2018, but approximately 8% of estate tax returns were audited that year. "The chance of audit has actually been going down over the last 10 years," Bernard says. "The IRS is very secretive about their audit selection process."

But taxpayers with higher incomes, \$1 million to \$5 million, had an approximately 2% chance of being audited in 2018, and taxpayers with an income over \$10 million had approximately a 6% chance of being audited in 2018.

So, assuming you did not rake in millions of dollars last year, your chances are pretty good of getting a pass in the audit department. However, if you do find yourself facing an audit, here's what to expect from the process.

#### What happens first

An IRS audit starts with a letter being sent to your place of residence or business. "The IRS will never contact you by

# FACING AN AUDIT

Gulp! Sure, the notion is intimidating, but experts agree the first thing you need to do is relax

telephone. There are fraudsters telephoning taxpayers stating they owe large tax debt and then ask for the Social Security number. The IRS will never ask for your Social Security number over the phone," says Nichole Heid, enrolled agent and accountant with Rosedale & Drapala CPAs in Wantagh.

Audits are either by mail or in person. About 70% of IRS au-

ditions were done by mail in 2018, Bernard says.

This is called an "Correspondence Audit," in which the IRS requests additional information to be mailed in. A common example is a notice CP2000, which is generated when an item claimed on the tax return doesn't match the source documents reported to the IRS.

The second level is an "Office Audit." The documentation required may be extensive, so the IRS will request your appearance at the closest IRS office.

The third and most severe level of an audit is a "field audit." A letter will be sent to you with the contact information of the agent handling the audit and an appointment is made for the agent to appear on premise of the residence or place of business, Heid explains.

#### Get help

Although the IRS does not



Seek professional assistance in the event of an audit, CPA Anthony Viola says.

have a requirement that a taxpayer hire an attorney or CPA to represent them in any level of audit or tax controversy, including in tax court, this may not be the time for DIY.

"You want the assistance of a tax professional who knows the tax laws and the process," says CPA Anthony Viola of KVLMSM in Woodbury.

After the initial contact and the first appointment is set, get your documents together. The IRS agent will provide you with a laundry list of items to review that relate to the audit. "It is vital that third-party documentation supports your claims," Viola says.

What might be requested? It depends on the type of IRS audit being conducted, but a lot of the time, the IRS is merely looking for the backup documents for items you listed on your tax return: the receipt from a charitable donation, a canceled check for a business expense, and things of that nature, Bernard says.

The statute of limitations for an audit is three years from when the return was filed or should have been filed, but, in certain cases of substantial error, the IRS can go back further. Usually, the IRS will not go back more than six years. For this reason, keep all proof of the items on your tax return for, at a minimum, three years, but preferably seven years, Bernard says.

Once documents have been submitted and reviewed by the auditor, there is usually a meeting to go over the potential assessments or the potential results of the tax audit. At that meeting, the auditor usually explains any potential tax assessments to be charged, based on the results of the audit. The assessments would be based on differences between what the auditor considers taxable or nontaxable and what you reported on your tax return.

The auditor will also explain the appeal process if there is a



Nichole Heid says the IRS will never phone a taxpayer; an audit is triggered by mail alert.

tax assessment that the taxpayer does not agree with. A consult with the auditor's supervisor may be available to you to try to settle the case at the audit level, Viola says.

#### Will the state come after me?

No, but any results of the IRS audit, if other than a "no change" result, should be reported to the state in an amended return, to pay any additional state taxes that may be owed, based on the result of the IRS audit. "The state will eventually catch up with you. IRS audit results are reported to the taxpayer's resident state," Viola says.

According to Joshua Zimmelman, president of Westwood Tax & Consulting in Rockville Centre, the states most likely to audit you (as of a few years ago) were Delaware, Hawaii, Massachusetts, Michigan, and New York.

#### How can the audit end?

The audit will conclude in one of three ways:

- No change, meaning you substantiated any questions the IRS had and the IRS is not proposing any changes.
- You agree to a change by the IRS, for example, the agency says you are not entitled to a certain deduction, the deduction is removed and you agree to pay the additional tax.
- You disagree with changes proposed by the IRS.

"If so, you can request a settlement conference with the IRS manager, or file an appeal. If your appeal is not to your satisfaction, you can eventually petition the tax court. "But be forewarned: The process of filing an appeal and eventually petitioning the tax court is lengthy and involves many steps and strict deadlines," Bernard says.

Lastly, don't panic. Stay positive.

Says Bernard, "About 30,000 of the 1 million returns audited in 2018 actually resulted in the taxpayer getting an additional refund."