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You or Your Business Gets an IRS Audit Notice: What Do You Do? Defending an IRS Audit (Part 10)

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The United States has a voluntary tax reporting system. Once a tax return is filed, however, the IRS will seek to verify that filed tax returns comply with the tax laws. To achieve this, an IRS audit (“examination”) must take place. There are different types of IRS audits.

The most common type of IRS audit is a “correspondence audit” conducted entirely through the mail. Most correspondence audits are initiated by the IRS computer system, which receives income information for individuals reported to the IRS by third parties (e.g., Form W-2 wages/salaries from employers; Form 1099 payments from investments, retirement accounts, and other sources; and Form K-1 partner distributions). It then compares this to what is reported by a taxpayer on his or her tax return, and, if there is a difference, an audit notice will be generated. The audit notice will request verification from the taxpayer to determine why the information reported on the taxpayer differs from that being reported to the IRS from third parties.

If an audit requires review of additional information on a tax return, the IRS will often conduct an “office audit.” As the name implies, a taxpayer receives a notice from the IRS to come into a local IRS audit to meet with an IRS “tax examiner.” The tax examiner will request certain information from the taxpayer during the audit to verify income and claimed deductions on a tax return.

Finally, if an audit involves more complex tax issues, the IRS will assign the audit to a field examiner, known as a “Revenue Agent,” for a more comprehensive examination. The Revenue Agent will send the taxpayer a letter and typically requests to meet with the taxpayer at the taxpayer’s home or place of business. The Revenue Agent will request information for the audit through one or more “Information Document Requests” that should be produced at the beginning of the audit. These types of audits can last for days, weeks, or even months, depending on the issues involved.

Taxpayers should rarely represent themselves in an audit. IRS tax laws are complex, even to experienced tax practitioners. Taxpayers who receive an IRS audit notice should contact an experienced tax professional to represent and advise them in the audit. Not all tax professionals can represent taxpayers in IRS audits, however. Only licensed attorneys, certified public

accountants, and specially-licensed IRS “enrolled agents” can represent a taxpayer in an IRS audit. These individuals must submit a special IRS power of attorney form to represent any taxpayer in an IRS audit.

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