



Avoiding the IRS

by H. Frank Sauls, Jr.

With April 15th drawing near, we all begin to experience headaches, nausea, and moments of panic – will this be the year we are audited? While there is not sure way of identifying the selection criteria for the IRS, here are a few bits of information regarding the selection process used by the IRS for audits and a helpful hint or two to decrease your chances of selection.

The IRS frowns upon many things, specifically math errors, incomplete information, and missing schedules. There are warnings printed on all IRS material to review your tax return for these specific items. In most cases, when errors are found by the computer processor, the computer generates a notice requesting the corrected information along with any other areas needing attention.

The IRS already has a wealth of information at its disposal even before it begins to examine your tax return. Your employer sends information regarding wages and commission income and your financial institution and brokerage house sends information regarding interest income, dividends, and stock sales. Any errors in comparison of this data to your return will be sent via a notice and will require a response on your part. We all know that computers are not infallible, so your best defense against error is to keep organized records of all income and expenses. These will be your best defenses against computer error and IRS review.

Once your return passes the computer review, it can be tapped for a “field audit” or an “office audit.” These audits require a visit with an IRS agent. Returns selected for this type of audit have been given a particular grade. The IRS grades returns according to income, expenses, and deductions. If your return deviates from the median grade, it will receive a higher score and possibly be subject to an audit. While certain professions stand a greater chance of selection for an audit because of the form of deductions and income levels they possess, the average number of individuals being selected for an audit have experienced a gradual decrease over the past few years.

The most frightening type of audit is known as the Taxpayer Compliance Program audit or the TCP audit. This type of audit is performed on randomly selected tax returns. Once selected for the TCP audit, you must support and defend each and every item on your tax return. The IRS performs this type of audit to improve its database and its

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statistics for future audits. While I am not one to stand in the way of progress, the altruistic nature of this audit offers small condolences to its participants.

The act of audit selection is not an exact science. It would behoove us all to keep track of our records in an organized fashion in the event we are called to chat with the IRS. I believe Albert Einstein had a point when he said that “the hardest thing to understand in the world is the income tax.”

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