



Why Me?

By H. Frank Sauls JR.

With April the 15 and tax deadline looming near, one of the things that people begin to think about this time of year is “Who does the IRS determine whom it will audit?” With these questions your thoughts quickly deteriorate to include “Will I be audited?” I personally am an optimistic so my mind would rather think about “How do I keep from being audited?” or at least “Is there a way to improve my chances of NOT being one of the lucky few selected by the IRS for a tax audit?” Therefore, let’s look at the IRS process to see what we can determine.

Anytime an article is written on this subject, it should be pointed out that the IRS has never released exactly how it determines whom to audit. But an astute observer can get some really good clues. I bet you even know some of the process.

The first area that the IRS would look to is errors in filing. This would include math errors, incomplete information and missing schedules. Even the IRS notes that this may be a hot spot because its reminds you on the envelope to mail your tax return, and in the instructions to check these items. The good part about these types of items are normally they are caught by the IRS computer and the computer generates a notice requesting the desired information or correct your math and sends you a notice showing the changes to the return.

As each year goes past, the IRS computers are able to verify more and more information mainly because the government is requiring more information to be filed directly with the IRS. Most people are aware that it can currently double check certain income records already filed with the government your wage or commission income (your employer has already sent the IRS a copy), your interest income (the bank has already sent the information), your dividends and stock sales (compliments of your brokerage house), and your last years refund (the state government). However most people are unaware that the IRS computer also checks certain deductions back to information filed by others like your state withholding (your employer again), your home mortgage interest (the bank again) as well as certain charitable contributions. As you can tell from this list the IRS computer already has lots of information at its disposal and with increasing in technology its getting smarter every day. This form of matching is generally called the

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CP-2000 program, and is named after the IRS form you will receive if the computer detects and error. Under this program you simple receive a letter from the IRS scheduling the information that it has that the computer cannot find on your tax return. This program is almost 100% computer effort with little human intervention. Resolving the CP-2000 is normally a fairly simple matter: pay the taxes if the letter is correct or writing a letter to the IRS explaining the notice concerning the computer matching has a problem and an IRS employee will look into it. Obviously the keep to eliminating this is to keep good records of all income and expenses and adequately identify your sources of income or expenses where the computer can match the necessary information.

The next level of IRS audit is the human type, either a “field audit” or an “office audit”. We have all heard horror stories about this one. An IRS agent comes to see you or you go to see the IRS. This audit normally has it origins once again in the computer. The IRS utilizes a grading system for all returns based on the chance of misstatement of income or expenses. The IRS has been keeping statistics since it started. From these statistics, it determines if you are taking normally deductions given your income levels. If the computer thinks you are normal no problem. As your return deviates from the normal return, the higher your grade. The people with the highest-grade wins the opportunity to met with the IRS and explain a few things (I told you I was an optimist.) Obviously certain professions stand a greater chance of audit because of their form of deductions or income levels. The good news here is that because of budget cuts to the IRS and the diversion of IRS manpower to more auditing by the computer. The average taxpayers chances of having an office or field audit have been going down over the past couple of years. Lets hope it continues.

Another type of audit has several names but the facts are the same. In this case, someone turns another taxpayer in to the IRS or the IRS will do an audit on someone else comes across circumstances where it believes someone may have cheated. Generally the agent is looking for something specific here.

The worst kind of IRS audit is the Taxpayer Compliance Program audit or TCP for short. According to the IRS this type of audit is a pure chance type of audit. Those selected normally must prove every item on their tax return. Why you ask, because the IRS tells use these are the taxpayers that are selected to help it update and improve its database and its statistics for future audits, small condolanses if you ask me. The US Congress has a big problem with this type of audit and is seeking to stop the IRS from performing.

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Hopefully now you know a little more about the IRS audit system. I have a sneaky feeling you will have a little more interested next year when the IRS publishes its average deductions for contributions, interest expense, etc.

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