

## Avoiding a Tax Audit

By W. Neal Carris, CPA



All taxpayers dread the prospect of facing an Internal Revenue Service (IRS) audit, but there are some steps you can take to minimize the likelihood that you'll be audited or ensure a more positive experience should you be audited.

In an audit, the IRS contacts the taxpayer to verify some of the information contained in a filed tax return. The process usually involves a very careful examination of the return. The IRS is becoming more active in enforcement actions. In 2007, nearly 1.4 million individual tax returns were audited, the highest rate since 1998. Audits of businesses jumped 14 percent, to just under 60,000. Among other reasons, the IRS is trying to reduce the tax gap — the difference between taxes owed and taxes actually paid — which the agency estimates is roughly \$290 billion.

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How can you avoid being targeted for an audit? One easy answer is simply to turn in a tax return that is as accurate, neat and well organized as possible. If your math is wrong or some details are missing, you probably will find yourself contacted by the IRS. You may not necessarily end up being audited, but it's best if your return doesn't attract added scrutiny.

Don't take a deduction for a charitable donation unless you have documentation to prove you made it, such as a confirmation letter from the charity. Your return may be scrutinized if you have donated a great deal — more than 10 percent of your income, say — or if you have given away a big-ticket item, such as a car. In general, you must obtain an appraisal for a non-cash item worth more than \$5,000. Of course, there's no reason to stop being charitable, but be sure to document what you have done.

Home office expenses may be another deduction that will raise red flags at the IRS. The answer once again is to keep detailed records of your expenses, particularly those that the IRS may believe are really personal items that you are trying to claim as business expenses. You may also be asked to verify the necessity of a home office.

In addition to charitable contributions and home office expenses, other red-flag areas include travel and entertainment deductions. As such, be sure to keep records of the expenses and the purpose of your business trip. For entertainment, in addition to keeping the receipt, make notes of who you entertained, where you went, how much you paid and what was discussed. This documentation won't prevent an audit, but it will help you should you be audited.

If you are contacted about an audit, CPAs advise that you don't panic. Remember, you are not going on trial, you're simply being asked to verify some of the claims you made on your tax return. It's best to remain calm and cooperative when dealing with the IRS.

It's also a good idea to contact your local CPA for advice and assistance in case you are audited. He or she can help you understand the process and work with you to try to achieve the best resolution.