Dear CLIENT,

Few things strike fear into a taxpayer’s heart like a letter from the IRS. Fortunately, the odds of you ever being audited by the IRS are lower than ever. Recent budget cuts have reduced the number of IRS auditors, and last year the IRS audited less than one percent of the individual tax returns it received, the lowest level since 2004.  

However, there are a few red flags that have been known to attract a second look by the IRS that you should know about.  

- **Unreported income.** The IRS matches income sources reported by third parties against your tax return. Any unreported taxable income (such as from an orphaned investment account) can trigger an audit. One of the reasons we recommend keeping all of your accounts in one place is to simplify your life at tax time and avoid simple reporting errors.

- **Excessive business expense deductions.** The IRS uses extensive databases to track typical travel, meals and entertainment, and other expense categories by occupation. Tax returns that show above-average expense deductions might attract attention from auditors. Mileage is a place where many taxpayers get caught; if you’re not keeping GPS logs, miles traveled, or cost information for every trip, the IRS may disallow your deduction.

- **High income.** Unfortunately, higher income not only translates into higher taxes, but also special attention by the IRS. In fiscal 2013, the IRS audited 2.5% of returns showing income of $200,000 or more and 10.8% of those with income of at least $1 million.  

If you discover that you have been selected for an audit, don’t panic. While audits are
stressful, there are several things you can do to get through as painlessly as possible.

**Never ignore a notice.** If you fail to respond by the given deadline, the IRS can automatically adjust your tax liability and send you the bill.

**Call in the pros.** If you’re being audited, the odds are already against you. Having a tax expert at hand to help you understand the process and handle the auditor’s requests can go a long way toward reducing your stress. The IRS can levy a wide range of penalties and professional advice may also help you minimize what you owe.

**Keep good records and be ready to produce them.** The IRS requires you to keep records to support any income or deduction that you claim on your return. Good organization will help you defend your position and may impress the auditor during any meetings. How long should you keep supporting documents on hand? Unfortunately, there’s no easy answer because it depends on your individual tax situation and the relevant statute of limitations. If you have questions about your personal record retention requirements, give us a call or speak to a qualified tax professional.

**Be honest but be brief.** Never lie to an auditor as that may be taken as evidence of fraud. The IRS treats suspicions of tax fraud very seriously and you want to reassure your auditor that you are being completely above-board in your dealings. But, don’t volunteer information or talk more than necessary. Don’t introduce prior year tax returns or any other documents unless the auditor specifically requests to see them.

**Know your position and be prepared to defend it.** Before responding to the audit request, read the Taxpayers’ Bill of Rights on IRS.gov to know your rights as a U.S. taxpayer. Research any relevant deductions or tax issues and be prepared to negotiate your position with the auditor and his or her supervisor.

**How We Can Help**

As your trusted financial professionals, we want to know when you are facing a problem. We are available any time with a sympathetic ear and an objective opinion on your financial issues. We also work closely with a network of tax professionals and accountants who may be able to help you understand the audit process and defend yourself against the IRS.

If we can be of service to you and your loved ones, please give our office a call at 423-328-1607. We would be delighted to be of service.

Kind Regards,

Niles P. Geary, II, MBA, CRPC, AIF™
Footnotes, disclosures, and sources:

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