TAX AUDIT:
Preparation is the Key

An IRS Audit of Your Tax Returns is No Cause For Panic, But You Do Need Documentation

By Jack Kolmeier

It’s not exactly the kind of thing that you enjoy.

Just a few months after tax day, you’re in the heat of pursuing and closing new business. By now, you’ve forgotten all about your tax return which you filed for the previous year’s income.

Then it comes, right out of the clear.

You get a letter from Uncle Sam and he makes it quite clear: he would like to request your presence at such-and-such a date at the local IRS office at so-and-so time.

There isn’t much mystery in the Uncle’s greeting. Your tax return is going to be audited.

For contractors who have never before been audited, such an experience can be a confusing and even frightening prospect. So—let’s consider some tips to keep in mind—especially if you don’t have a Certified Public Accountant who will go down to IRS with you and do all the talking.

1. **Don’t panic.** A tax consultant claims this is the first and best piece of advice that can be given to any businessman whose return has been chosen for auditing.

2. **The appointment time can be re-adjusted for your benefit.** You don’t have to accept the IRS-designated time and day. Let’s say their chosen time happens to coincide with a big bid opening and you want to be there personally. All you need to do is call the local IRS office and request a different time and day. Your wishes will be granted.

3. **Arrange for an auditing location best for you.** There are three possible places at which the audit can occur. These include your own place of doing business, the office of your lawyer or accountant, or the IRS office. You can decide which is best for you? IRS does tend to spend more time on the audit if they visit your office, and they tend to delve into many areas of your past year’s operation. Thus, you may decide not to have the auditors in your place of business.

And there are often advantages to holding the audit at your lawyer’s or accountant’s office.

It is often preferable, though, to have an “office audit” at the IRS branch. There, the agent will usually cover only one or two aspects of your business, and it will rarely take over an hour.

4. **Have your tax preparer accompany you.** This person will help you first by making certain you’ve gathered all the records you should have. Your might hold a “mini-audit”: before journeying to the IRS.

5. **Answer questions, but don’t volunteer information.** During the audit, keep quiet until spoken to. Your objective is simply to get in and out as quickly as possible. Even where the information you offer is harmless, it may cause the auditor to journey down another byway. It might not result in increased taxation, but it is time con-

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suming. And time is money . . . . for any wall and ceiling contractor.

6. **Tell the truth.** There’s no use asking for trouble and that’s what a lie will get you. If your return is honest, don’t try to cover your bases twice by offering “fractured facts.”

7. **Take in all necessary records.** It’s positively painful to discover during the audit that needed records are out of reach back in your office. Where you’re in doubt, take the records with you.

   A few examples of records to include are: ledger, diary, canceled checks, receipts, log of auto use, repair bills for car, and payroll records. You should include receipts obtained for many expenditures. Often times, canceled checks are not enough for the IRS.

   An expense diary is often of vital importance, although many contractors overlook it as a part of a businessman’s arsenal of records. The diary establishes the “why” of many expenses. The business meaning of a cash outlay is easily forgotten over the months. Also, the diary can establish the business relationship of any out-of-town trips you have taken.

8. **Ask questions without hesitation.** Should the auditor decide that you owe more taxes because of a particular facet of your business, don’t be the least bit hesitant to suggest criteria which you feel neutralizes his position.

   If you feel he has overlooked or given short shrift to relevant material, by all means provide it again, and ask if it modifies his decision. This is a very important exception to the earlier tip on volunteering no information until it is requested.

9. **You aren’t obligated to accept the auditor’s decision.** Tax regulations are far from exact and one auditor can even disagree on interpretation from another. Auditors are human, too, and are prone to make just as many mistakes’ as you do.

   If, in your opinion, the auditor is wrong don’t sign the statement of agreement he provides. Rather you should ask for and file a request for appeal. If your audit takes place at the IRS office, you can talk with the auditor’s supervisor at once for an appeal.

   Once started, an appeal can continue right on up to the Supreme Court. Remember, though, that given today’s legal rates taking it that far would probably cost more than the original tax levied.

   Should you feel the need for more information about the tax auditing and appeal procedure you will find it in IRS Publication 556, entitled Audit of Returns, Appeal of Rights, and Claims for refund.

   It’s available free of charge from your local IRS office.

   If you follow the tips in this article, your audit should proceed smoothly and efficiently. And it can also spell the difference between a modest profit and a really healthy performance for the year.