

## All IRS Tax Audits Not Created Equal

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### H&R Block Advises Compliance Contacts Don't Have to Be Costly

KANSAS CITY, MO, Mar 26, 2012 (MARKETWIRE via COMTEX) --H&R Block (NYSE: HRB) -- Data for last year shows the IRS audited the tax returns of approximately 1 percent (1.6 million) of taxpayers. However, further inspection indicates that the tax returns of an additional 6.5 percent (9.2 million) of taxpayers were subjected to recently defined type of compliance contact. The National Taxpayer Advocate called these compliance contacts "unreal" audits in a recent blog post(1).

No matter what an IRS notification or compliance contact is called, H&R Block advises on the benefits of having professional assistance when responding to an IRS notification.

The 9.2 million taxpayers who were notified the IRS had recalculated their taxes due, also could have been assessed added penalties and late fees. The notifications happened for the following reasons:

- 4.7 million returns were corrected for math errors
- 3.9 million returns were determined to have underreported income based on third-party reporting, which is done by employers, banks, etc.
- 600,000 substitute returns were filed by the IRS on behalf of taxpayers based solely on income reported by third parties, perhaps resulting in taxpayers not claiming the tax credits and deductions to which they are entitled.

"While it might seem the only appropriate response to an IRS notification is to pull out the checkbook, it's important to understand the request," said Elaine Smith, H&R Block tax professional and enrolled agent. "The IRS has several ways it corresponds with taxpayers to correct underreporting errors. So, not all audits are created equal."

H&R Block, which prepares approximately 1 in 7 tax returns nationally, also provides audit services to current and new clients. Only enrolled agents, certified public accountants and lawyers may represent taxpayers through the entire IRS audit process. H&R Block employs the nation's largest single staffing of enrolled agents, who have experience with audits involving hundreds to millions of dollars. In fact, in an audit situation H&R Block is able to reduce the overall tax liability for 3 out of 5 taxpayers whose returns were not prepared by H&R Block.

#### Audits hit all income levels

The primary targets of audits are no longer small business owners and those whose income exceeded \$1 million; 64 percent of the 1.5 million taxpayers audited in 2010 earned \$50,000 or less, including taxpayers who claimed the Earned Income Tax Credit, but were not eligible. This means an overwhelming majority of taxpayers subjected to audits and other forms of compliance contact are low- and middle-income taxpayers. Following are other factors that may make taxpayers attractive audit candidates:

- Handwritten returns
  - Miscalculations and omissions that could be avoided by using tax preparation software and e-filing can cause even the most straightforward returns to be audited
- Unreported income and inconsistencies
  - A document-matching program makes it easy for the IRS to check income stated on a tax return against what is reported on forms W-2 (wages), 1099-MISC (self-employment income), 1099-INT (interest paid), 1099-B (sale of stock), etc.
  - The IRS also uses a program to compare taxpayers' deductions (e.g., mileage and charitable contributions) with others in the same tax bracket to check for inconsistencies
- Schedule C (self-employment form)
  - Returns are more likely to be audited if they include claims for expenses not within the IRS's guidelines and include a majority of cash business transactions.

Like audits, not all tax preparation companies are created equal. Only H&R Block's guarantee provides free audit support for returns prepared by its tax professionals in tax offices, and free, full audit representation for returns filed by taxpayers who used its digital, online and mobile filing solutions. IRS notifications are sent year-round, and these services are available year-round.

"Avoiding errors on tax returns starts with choosing the right tax prep method based on individual needs, and it can help a taxpayer avoid an audit situation," Smith said. "Taxpayers shouldn't panic or ignore IRS notices. Instead, they should seek professional assistance to make sure the changes the IRS made to their return are accurate. H&R Block may find you actually owe less than what the IRS indicated."

H&R Block tax professionals are offering free Second Look(R) reviews on 2008-2011 tax returns not prepared by H&R Block to identify overlooked tax breaks, such as the Earned Income Tax Credit. Free Second Look reviews are available at participating H&R Block retail tax offices through April 30 to new and existing clients. To find the nearest H&R Block office, visit [www.hrblock.com](http://www.hrblock.com) or call 800-HRBLOCK.

H&R Block's tax professionals provide guaranteed tax return preparation services in-person at retail tax offices open year-round and through Block Live(SM), the only face-to-face online tax preparation experience available in the industry. Do-it-yourself filers benefit from the expertise and guidance of The Tax Institute at H&R Block when using H&R Block At Home(TM) on their computers, tablets and smartphones. Because understanding taxes is an integral part of managing personal finances, H&R Block keeps the conversation going with clients all year via blogs, tweets and Facebook status updates.

(1) What's an Audit, Anyway? Jan. 25, 2012

About H&R Block H&R Block, Inc. (NYSE: HRB) has prepared more than 575 million tax returns worldwide since 1955, making it the country's largest tax services provider. In fiscal 2011, H&R Block had annual revenues of \$3 billion and prepared more than 24.5 million tax returns worldwide, including Canada and Australia. Tax return preparation services are provided in company-owned and franchise retail tax offices by approximately 100,000 professional tax preparers, and through H&R Block At Home(TM) digital products. The H&R Block Bank provides affordable banking products and services. For more information, visit the H&R Block Online Press Center.

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