

Audit Worries Shouldn't Keep Taxpayers From Taking Valid Tax Breaks

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H&R Block Advises Taxpayers Timely Response to IRS Notices Could Mean Tax Savings

KANSAS CITY, MO -- (Marketwired) -- 04/04/13 -- The federal government estimates it has a \$450 billion tax gap (the amount the IRS estimates is missed in tax collections). One way the government tries to close that gap is through IRS audits of those suspected of having underpaid. In 2011, 7.4 percent of taxpayers were contacted by the IRS about their returns, and the IRS collected \$15 billion from audits. [H&R Block](#) (NYSE: HRB) advises that even with an atmosphere that includes more people being audited, taxpayers shouldn't be afraid to claim all the tax breaks to which they are entitled.

"The best defense against an audit is to report all income and claim only the tax deductions and credits you are due," said Kathy Pickering, executive director of The Tax Institute at H&R Block. "Often, the IRS may request additional information or paperwork. A timely response by the taxpayer could mean the difference between owing extra tax or being able to justify claiming the valuable tax break. That is why being able to substantiate what is on the tax return is very important, so be sure to keep organized [financial records](#) supporting those tax breaks."

Who is being audited and why?

The profile of a potential audit candidate has shifted from the rich to include people who make far more modest incomes. Of the more than 1.5 million audits conducted in 2011, 2 in 3 were of people who made \$50,000 or less. Following are some common reasons the IRS contacts taxpayers:

- Unreported income, inconsistencies - the surest way to get a letter from the IRS is to not report all income
 - A document-matching program makes it easy for the IRS to check income reported on tax returns against what is reported by employers, banks, brokers, etc.
 - The IRS also compares deductions taken by taxpayers in the same income bracket to find inconsistencies in areas including mileage and charitable donations
- Claims for expenses not allowable and a majority of cash business self-reported transactions on the Schedule C
 - Eligible expenses can include advertising, insurance, legal services, vehicle expenses, employee wages and taxes, home office expenses and depreciation.

What should a taxpayer do when contacted by the IRS?

While tax season is January through mid-April, audits are conducted year round. The IRS may contact a taxpayer as late as three years from the filing date. However, contact may be very soon after the return is filed if an item is flagged for some reason.

Taxpayers who get an audit notice in the mail should contact their tax professional immediately as delays could result in additional penalties and fees. Most audits are correspondence audits conducted via mail; resolving the matter may be as simple as sending supporting documentation to the IRS. In any case, it is important to respond to the notice promptly. If a face-to-face meeting is required, some taxpayers may elect to have their representative attend without them. In the end, if the taxpayer disagrees with the auditor's findings, the results of the audit may be appealed.

"Being prepared for an audit means understanding what is being asked of you, providing that information only and often getting professional help," Pickering said.

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About The Tax Institute at H&R Block

[The Tax Institute at H&R Block](#) is the go-to source for objective insights on federal and state tax laws affecting the individual. It provides nonpartisan information and analysis on the real world implications of tax policies and proposals to policymakers, journalists, experts and tax preparers. The Institute's experts include CPAs, Enrolled Agents, tax attorneys and former IRS agents. Building off more than 10 years of research and analysis from a specialized tax research group at H&R Block, the company launched The Tax Institute in 2007.

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