



## The IRS Audit

This one is a bit atypical to explain, but I will give it a whirl.

I handle the books for a business, simple enough. I handle the personal taxes for one of the several owners.

One of the owners for whom I do not handle their personal taxes has requested that I handle their dealings with the IRS on their behalf; I believe without the knowledge of the actual tax preparer.

They are on a payment plan and they do not want to let the actual tax preparer know their actual financial position. This tax practitioner also requires that their organizer be filled in full. They then have a low level data entry person key in all of the information.

These are unusual conditions, but we pride ourselves in working with clients to the level to which they are comfortable. As one of our clients stated, "there is no box". So we help them to the level they request.

We have assisted the client get onto their initial payment plan. We have assisted them to get additional years added to their payment plan. We have counseled them that they need to have more withheld and make estimated payments. They already know the IRS is not happy with them. They have been scolded by the service as they add another year onto the payment plan.

But now they received a letter. There are questions on one of their past returns. They are being audited. My first thought is "great I did not do the return, I am fine". Then I am asked to go in and represent them for the audit...

This is a bad idea. The first question will be why am I there and not the preparer. That is the first question I would ask. But the client wants me to go with them.

So I instruct the client to gather copies of all of the supporting documentation for the information under audit.

I work with the client to create summaries of the broad categories being questioned and then summaries drilling down into the details.

For medical expenses, we had a Summary page for each category listing the appropriate amount for:

- Prescriptions
- Medical Insurance
- Dental Insurance
- Doctors and Dentists
- Hospitals and clinics
- Glasses and contacts.

Each category had a summary page attached to copies of the actual backup.

There was a neat package, showing the recorded amount, together with the backup for each category.

There were three sections being addressed including medical expenses.

Then I finally got my hands on a copy of the actual tax return. There were preparation errors. These should have been caught with a comparison to the prior year, but unfortunately were not.

Medical insurance was recorded on the front of the 1040 for self-employment, but was also included on Schedule A , under medical expenses; so medical expenses were overstated by over \$30,000. Not a good start for the client.

We recorded the overstatement and the corrected amount on the Medical Expenses Summary. The idea was to make the examiner's job as easy as possible. We want to close the audit in one day and not have them look further.

As we review further, there are other overstatements, back up that cannot be located; but basically small things, but issues to address.

Thank God the client had issued the required 1099. The client could not locate their copy, but the vendor was able to find theirs as proof.

We reviewed the broad summaries, the category summaries and all of the back-up. We had the corrections out for adjustment. The client was ready for their audit.

We discussed how we were going to address the issue as to why I was there and not the preparer. We could not come up with a valid reason as to why. So we then decided that I would not represent. Better to not have the embarrassing questions asked in the first place if you don't have a good answer.

We reviewed the situation with this strategy in mind. I told the client that he was only to bring in what was requested; a single copy of the tax return, the package we created and a portfolio for taking notes. Nothing else! Not the prior or subsequent returns. Not his check registers. He was not to bring in the tax organizers. Just the pile of papers we reviewed and that I handed to him.

I also counseled him to only answer the questions asked. Do not fill the quiet time with words; do not give him anything that he does not ask for. If he asks you do you know the time, it is a yes or no question. Not "a what time is it" question. Answer only what is asked, give nothing else away.

The client listened; I was called as they left the IRS office. This apparently was the most organized audit that the examiner had dealt with all year long. He appreciated the efforts that the client had put forth. There we no further inquiries and the file was closed.

We will now have to get this amount added to the installment agreement. The client also knows what to review to make sure his preparer does the right thing on the return moving forward. The posting error was not on the prior or subsequent returns. That is why the client wanted to bring them. I am thankful he listened. They may have found something else to question if he had done this. We kept the scope limited