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5 IRS Audit MISTAKES to Avoid

business $ense
By **Steven Bankler, CPA**, Shavano Park Resident

The IRS audits about one million taxpayers each year. While the agency is understaffed, that doesn't mean you'll slip through the cracks. IRS software automates the selection process now by flagging returns that show abnormalities: Perhaps the return deviates from what's normally filed, or it's been linked to a family member, investor, or business partner who is being audited. Also, the more money you make, the more likely you are to be audited.

An audit may consist of a simple letter from the IRS, or when the stakes are higher, you may need to meet with an auditor in person. In either case, common mistakes can almost guarantee you don't come out on top. They include:

1. **Ignoring IRS requests and deadlines.** Overlooking IRS notices won't stop the agency from taking action. Ignore the first letter and the IRS will make changes to your return for you. You'll then receive a notice of deficiency that outlines the new taxes and penalties you owe, with a 90-day window of time to file a Tax Court petition. Miss *that* deadline and you have waived your appeal rights. The IRS will start collecting the taxes through federal tax liens, wage garnishments, and levies. A similar process will happen if you miss meetings for face-to-face audits.
2. **Not filing past-due returns.** The first step to addressing an audit is to make sure you file all tax returns that are overdue, whether or not you can pay them. If you failed to file at any time in the past, the IRS can prepare and file those returns for you. Those returns, however, will not include the deductions and credits you may be entitled to receive. You also risk losing your refund and Social Security benefits as well as your ability to obtain home, business, or education loans.
3. **Lying.** The most common tax-related lies are underreporting income and claiming false deductions, which can both trigger heavy IRS penalties, fees, and interest. And then there's tax evasion and tax fraud, which can be criminal offenses that could land you in prison. When an auditor uncovers a cardinal sin like substantially underreporting your income or failing to report foreign bank and financial accounts, you may be heading down a long, dark path that could cost you dearly.
4. **Not contesting when there's a good reason.** Don't be intimidated. The IRS promises a right to professional and courteous treatment as well as the right to appeal disagreements. Utilize those rights when it makes sense. For face-to-face audits, you can speak to the auditor's manager if you don't like the way the audit is being handled. After an audit concludes, you can still contest it with the IRS Office of Appeals and have the decision reviewed. If the appeals officer agrees with the auditor, you can go through the court system.
5. **Not seeking expert help.** A qualified CPA can represent you before the IRS in a tax audit. This help is critical because you need someone on your side, who knows current tax laws and IRS procedures. They'll know when and how to petition the tax court, for instance, or whether your penalties should be contested. When all else is said and done, a qualified CPA can help you negotiate payment of the tax bill including applying for an offer in compromise, which allows you to settle your tax debt for less than the full amount.

Take IRS audits seriously because the IRS certainly does. If you don't take control of an audit from the beginning, you lose your power to file, contest, or appeal on your own terms.

Author's Note: Selling your business one day? It can take a decade of solid planning to exit a business on top, at least when it comes to saving taxes. Join Frost Bank, Steven Bankler, CPA, and Rosenblatt Law Firm for "Exit Planning: Why Every Business Owner Needs an Exit Strategy," an educational dinner seminar on Thursday, Sept 12, from 6:00 to 8:00 pm. Get tips from experts and hear from other business owners who share their experiences. Details and RSVP at (210) 691-3133.