
"Audit Mistakes Not to Make"

"The American Society of Tax Problem Solvers"

2019 Webinar Series

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The Examination Process

Audit Authority:

IRC §7602, "Examination of books & witnesses"

Return Selection-Determined by the "Discriminant Income Function" (DIF Score)

TPI-Total Positive Income (Any losses and/or negative return amounts are treated as zero).

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The National Research Program (NRP)

The NRP measures the payment, filing and reporting compliance of taxpayers via specified audits.

NRP Audit Categories:

- 1) No IRS contact Audits
- 2) Correspondence Audits
- 3) Office Audits
- 4) Calibration Audits

Tax Exam Classifiers

The "IRS Classifier" actually identifies (or classifies) each issue that should be investigated by the TCO or RA.

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Reengineered IRS Exam Process

- Planning – The IRS expects to provide improved & increased communication expected
- Managerial Participation – Group managers are expected to be more visible & accessible
- Risk Analysis – Additional fraud criteria has been established

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Audit Mistakes Not to Make-General Listing

- Lack of overall “preparation”
- Allowing the IRS to “interview” the taxpayer
- Allowing the IRS premature access to the taxpayer
- Neglecting to reconcile the taxpayer’s income
- Neglecting to fully understand the taxpayer’s business/job functions
- Providing the taxpayer’s documents in an “unorganized” manner
- Neglecting to discuss the issue of “privilege” with your client
- Discussing potential “privileged information” with the IRS
- Volunteering un-requested information to the IRS

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Audit Mistakes Not to Make-General Listing

- Unduly (or unreasonably) “delaying” the audit
- Neglecting to “elevate” the audit (requesting managerial conference)
- Neglecting to perform the appropriate level of **legal research**
- Neglecting to recognize signs of potential “criminal” elements
- Voluntarily extending the “statute of limitation”

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Discussion-Other Critical Audit “Mistakes”

- Allowing client to attend exam
- Neglecting to request the Auditor’s work-papers
- Neglecting to accompany client pursuant to an IRS Summons
- Neglecting to control the IRS during a “site-visit”
- Neglecting to defer to the IRS “ATGs”
- Allowing the IRS total access to electronic files
- Neglecting the use of Audit Log/Work Program

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Rules of Engagement-Audit “Mistakes Checklist”

- To properly “manage” an audit and to prevent potential critical mistakes, the implementation and discussion of the minimum “14 points of the unofficial “rules of engagement” should be observed.

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IRS Mistakes Not to Make

- ❑ Examiners are attempting to validate “audit trails” and the reliability of the taxpayer’s records
- ❑ A U. S. District Court upheld the enforcement of a Summons for “electronic records” (the taxpayer’s Quickbook files)
- ❑ IRS agents will request the “administrator’s password”
- ❑ Defenses to “electronic/QB records” requests
 - Provide the IRS Agent year-end QB financial stmts
 - Provide the IRS Agent with a detailed G/L
 - Ensure the Financial Stmt & G/L agree w/the tax return
 - Determine if any information is considered “privileged”
 - Convert the TP’s records to the 2012 version of QuickBooks

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IRS Publication 2017

- ❑ If the taxpayers records are not maintained or established by a proper accounting system, it is recommended that the practitioner organize the taxpayer’s books and records in accordance with IRS Pub 2017 as follows:

Advertising Expense

Yellow Page Ads	\$ 1,214.99
National Directories	937.14
Local Newspapers	763.47
Business Cards	<u>391.67</u>

Total Deduction \$ 3,307.27

Ensure all totals agree w/the tax return/explain any differences

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