

THE TRUTH ABOUT HEALTH REFORM

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**HOW YOUR
FAMILY COULD
BENEFIT**

**WHAT YOU'LL
REALLY PAY**

**PLUS: WHAT
NO ONE IS
TELLING YOU**

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1. AUDITS ARE ON THE RISE

Now that your 1040 is out the door, you may be second-guessing yourself: Will the IRS come a-calling?

Well, the number of audits has risen every year over the past 10. And experts expect that trend to continue, what with the ballooning federal deficit and the additional \$400 million earmarked for tax enforcement in 2010.

Even so, your audit risk in any one year is slim—about 1% if your income is under \$200,000, 2% from there to \$1 million, and 6% for the über-rich, based on 2009 data. Those selected tend to be self-employed or have unusually large write-offs, says Trudy Moore, an enrolled agent in Stevensville, Mont. If you do get hit this year, it's likely to be for 2008 taxes: Audit letters typically go out 18 months after the filing date.



THINGS YOU NEED TO KNOW ABOUT ...

Getting Audited

By BETH BRAVERMAN

2. DELAYING CAN COST YOU THE RIGHT TO FIGHT

If you are one of the unlucky few to get the dreaded letter from the IRS, be sure to take the action required within the time frame allotted, usually 30 days. Otherwise the dispute becomes a final assessment and moves on to the collections department, with no grace period.

Can't get your act together in 30 days? You have the right to ask for a postponement, and the IRS should grant such a request if you say you need the time to track down records.

3. IT CAN HELP TO HAVE A PRO ON YOUR SIDE

Three-quarters of audits are conducted by mail, with the IRS simply requesting documentation (like receipts) on a specific part of the return. You *can* handle this type of audit on your own. But if someone else prepared your taxes, get him to weigh in. The fee you paid may cover such help, and the agreement you have may put the person on the hook for mistakes.

If the audit requires an in-person meeting, it will probably get into greater depth on a certain issue. So you'll want an advocate, ideally a CPA with audit experience. Expect to pay \$500 to a few thousand bucks.



4. ANYTHING YOU SAY CAN BE USED AGAINST YOU

In any audit, avoid offering information beyond what's asked for by the examiner, says Silicon Valley CPA Alan Olsen. You might unwittingly give evidence that could expand the scope of the investigation.

It's especially wise to remain tight-lipped at a face-to-face audit: Even by engaging in small talk you could incriminate yourself. That's another good reason to hire representation—when you do, you don't have to attend the meeting.



5. THE AUDITOR'S BOSS MAY BE ABLE TO NEGOTIATE

Unhappy with the auditor's finding? Ask (nicely) to speak with a supervisor. "The manager has more latitude than the front-line employee," says Charles Hayes, a CPA in Coronado, Calif. This can be effective if the issue falls into a gray area.

Should the manager fail to see your side, file an appeal. IRS officers will consider the "hazards of litigation"—if there's a shot the feds would lose in court, they'll offer you a deal. Your final option is taking it to the legal system. But that may not be worth the cost unless there's more than \$10,000 at stake. ■