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IRS Tax Returns That Are Audit Proof, Audit Bait, And How To Tell The Difference

There is quite a mystique about avoiding a tax audit. Except for tax protesters, no one wants to fight with the IRS. Theories for what triggers an audit abound. Even so, there are some basic things you can do to reduce your chances of being selected, or to make any interactions with the IRS less traumatic.

Do not be afraid to take deductions and losses to which you are entitled. However, do not take tax positions you are uncomfortable defending. Strangely enough, if you take reasonable tax positions, you may not need to defend them. And if you do face an audit, it will likely be far easier.



Many people speculate that certain items trigger an audit: home office deductions, passive losses, schedule C (sole proprietorship) activities, etc. You can't predict the trigger (and you can drive yourself crazy trying), but you can "be reasonable" about every item on your return. If you don't have a decent claim for a home office, don't claim it. If your money-losing sole proprietorship is really a fun hobby, treat it that way.

You'd be surprised how many professionals and amateurs alike try to submit too much information. If your return is complex, you may need to add explanations or disclosures in footnotes. Be concise, truthful and accurate, but don't provide copies of sales agreements, settlement agreements, bank statements, etc., unless you are later asked to by the IRS.

Disclosures can be made on regular paper or special IRS forms. Tax return preparers distinguish "white paper" disclosures from those on IRS Forms 8275. But either can be used any time you need to disclose something that can't be adequately disclosed on the forms. There is another form, 8275-R, but you shouldn't be filing a Form 8275-R—or taking a tax return position that would require it—without professional help.

Some people argue that a return prepared by a professional is less likely to be audited, but there's little reliable data to support it. Nevertheless, having a professional prepare your return—or at least advise on anything quirky—is a good idea. If you do your own return, using a commercially available software package, such as Intuit's TurboTax or H&R Block's Taxcut will make it easier and more reliable.

If the software produces some result you consider wrong, don't simply override it. (Or, at least investigate before you do.) Example: You're not rich and can't understand why the software has spit out a Form 6251 showing you owe the alternative minimum tax. The software is probably right, especially if you live in a high tax state.

Of course, make sure you add, subtract and multiply accurately. Check your numbers through each step, and do some simple math checks when you finish. This is another reason to use a software program. If you do make a math mistake, you are likely to get a correction notice from the IRS. Your goal is to minimize such interaction with the IRS.

Form 1099 comes in many varieties, including 1099-INT for interest, 1099-DIV for dividends, 1099-G for tax refunds, 1099-R for pensions and 1099-MISC for miscellaneous income. These forms are sent by payers of such funds to both you and the IRS. So regardless of how many 1099s you receive, make sure they all are accounted for on your return.

There are also Forms 1098 which lenders send (to you and the IRS) recording how much interest you paid. The IRS even has forms for many [non-cash items you must report on your taxes](#). One way to enhance the chance of audit is to

fail to account for something. Yet you may may not want to ask if you are [missing an IRS Form 1099](#). Of course, if a Form 1099 is wrong—say it reports more income than you had—you can explain or deduct it on the return, but you need to first report it.

No matter how careful you are, there's no way to guarantee you'll never have a tax controversy. Sometimes your number just comes up. While audit rates for most types of tax returns are low, there is always a chance you will be examined. Try to be ready.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not as legal advice.