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Step 1: IRS Sends Taxpayer Notification Letter

When you receive an audit notification from the IRS, treat it seriously. The IRS is selective about which tax returns it audits – in recent years, it has audited just 0.7 percent of all returns filed – so it is quite serious about digging into your financial situation and your tax return.

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Step 2a: Taxpayer Sends In Required Documents

Many IRS audits are handled purely by mail and telephone (known as a correspondence audit). During a correspondence audit, a taxpayer submits the documentation the IRS requested in the notification letter, along with any other documentation the taxpayer believes is required to support his or her tax filings.

OR

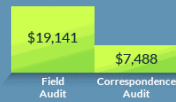
Step 2b: Taxpayer Meets With IRS During A Field Audit

Much like a correspondence audit, a field audit is where the taxpayer will present documentation and evidence to the IRS. However, this type of audit occurs face to face with an IRS agent. When a field audit is requested, the IRS has pulled out all the stops and will put your tax records under its highest level of scrutiny. These audits may occur at the nearest IRS office, but can also be held at your home or another location. If the IRS believes the situation is serious enough, it may request multiple meetings at this stage of the process.

**CORRESPONDENCE AUDITS VS. FIELD AUDITS:
BY THE NUMBERS**

**How Much You Pay Often Depends
On The Type Of Audit Conducted**

**INDIVIDUAL RETURNS, AVERAGE
REQUESTED INCREASE**



When the IRS requests additional tax based on the results of an audit of individual returns, those who went through a field audit are asked to pay (on average) 2.5 times more than those who went through a correspondence audit (\$19,141 for field vs. \$7,488 for correspondence).

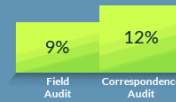
**CORPORATE RETURNS, AVERAGE
REQUESTED INCREASE**



For corporate returns, the difference is even scarier. On average, the IRS requests 14 times more during a field audit (\$471,505 average increase from a field audit vs. \$33,705 for a correspondence audit).

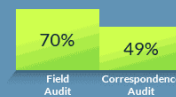
**Field Audits Are More Likely To
Result In Additional Tax**

**INDIVIDUAL RETURNS, RESULTING
IN ADDITIONAL TAX**



Twelve percent of individual correspondence returns that are examined result in no change to the tax paid. Only 9 percent of field audits for individual returns result in no change, meaning that the vast majority of those audits result in additional payment.

**CORPORATE RETURNS, RESULTING
IN ADDITIONAL TAX**



For corporate returns, 49 percent of correspondence returns result in additional tax, but 70 percent of field audits result in additional tax for the business.

Important note: These figures represent the average amounts paid and percentage of cases that resulted in additional tax. With the help of a tax attorney, you may be able to decrease or eliminate your tax liability and end up in a more favorable situation than these numbers represent.

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Step 3: Settlement

After an audit, the taxpayer may simply agree to pay any additional tax requested by the IRS, or the IRS may decide that additional tax is not necessary. If either of those things happens, the audit process will conclude at this step.

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Step 4: (If No Settlement Is Reached) Appeal

There are numerous ways to appeal the results of an audit if you do not agree with them, including filing claims with:

1. The IRS itself, where you can request an administrative review of the audit
2. The U.S. Claims Court or the U.S. District Court, but these courts typically won't hear a case unless you have already paid tax and the IRS has denied a request for a refund
3. The U.S. Tax Court
4. (Only after exhausting options 1 through 3) The U.S. Court of Appeals of the Supreme Court of the United States

APPEAL TIMELINES

If you have not reached a solution after the final conference with the IRS agent (or the IRS agent's manager), you have 30 days to consider your next steps. If you do not respond to the IRS within those 30 days, the IRS will send out a deficiency notice. This triggers a 90-day window in which you can file a claim with the U.S. Tax Court. Additional time frames for filing subsequent appeals to higher courts also apply.

SOURCES:

- The Examination (Audit) Process: <https://www.irs.gov/uac/the-examination-audit-process>
- Enforcement: Examinations: <https://www.irs.gov/uac/enforcement-examinations>
- Examination Coverage: Recommended and Average Recommended Additional Tax After Examination, by Type and Size of Return, Fiscal Year 2015 (Table 9a): <https://www.irs.gov/pub/irs-soi/15db09aex.xls>