

The IRS normally communicates with taxpayers by letter, but other types of correspondence occasionally occur. There are a variety of reasons the IRS may contact you. Some are:

- To ask minor questions or seek additional information.
- To send a refund.
- To notify you of an adjustment on your return.
- To confirm an address change.
- To set an appointment for an audit.

Receiving mail with a return address for the Internal Revenue Service is enough to scare anyone, but it's often nothing to worry about. Even if the letter states you are being audited or you owe more in taxes, don't panic.

### Read the correspondence carefully

Ignoring correspondence is the most common way to increase your problems. Here are some things to keep in mind:

- On letters, the top right-hand corner will indicate which year's tax return the letter is addressing.
- Many requests are simple and can be handled easily on your own.
- Always make a copy of the correspondence and anything you send for your records and the records of your tax preparer.
- Inform your tax preparer of anything that happens to your return.
- If the letter is confusing or the idea of reading it causes you to panic, then make an appointment to see your tax preparer.
- **Always** respond to any requests.

### The "don't have to file" letter

The purpose of this letter is to inform you that the IRS doesn't want you to file if you don't have to. This letter is harmless; there are no penalties for continuing to file, even if it's unnecessary. If circumstances change, you may have to file, so it's still important to check the filing requirements each year.

### The "audit" letter

This is a request from the IRS to set up a meeting to discuss your tax return. To prepare:

- Total your receipts for the expenses in question.
- Attach the calculator tape to the receipts.
- Label it with the type of expense.
- Obtain documents to substantiate other requests (i.e., church offerings, leases, loans obtained or paid back, bank statements, contracts, Social Security cards, etc.).

You may want to visit your tax preparer for help in preparing or reviewing your records and understanding the audit process before the actual audit.

The tax preparer may accompany you to the audit, or he or she may want to represent you with a "Power of Attorney," saving you the time and stress of attending personally. Some tax preparers charge for this service.

If your tax preparer is going to the audit without you, he or she will need to be able to answer questions about your tax and financial matters.

Provide full and accurate information; don't hold anything back.

IRS auditors are trained to thoroughly cover the items shown on your tax return and uncover items that may have been missed. They will occasionally discuss nonbusiness items that can help them discover some income that may not have been reported. For example, they may ask if you've been on any good vacations lately. Because vacations are not normally deductible for tax purposes, the conversation may seem harmless enough. However, if you have taken several vacations to expensive locations, you must have had assets to pay for these trips. If the income you reported on the return is not large enough to indicate that you could afford the trips, the auditor may start to question where the money came from and whether it was taxed. Be careful how you answer questions. Auditors are people just like you, but they also have a job to do.

### The "adjustment" letter

This letter usually claims that some income (such as interest or dividends) does not appear to have been included on your tax return. It also includes a "balance due" amount to pay if you agree. The letter lists the income amounts that appear to be missing, along with who paid the amounts. Here's what you need to do:

- Cross check the figures shown on the W-2s and 1099s received that year with the return and the IRS letter.
- Pay special attention to the income item(s) that the IRS says have not been reported. It

may have been reported under another name or in a different section of the return.

- If you did receive the amount of income shown and it was not reported on your return, you may indeed owe the amount the IRS is requesting.
- If you did not receive the amount of income shown or it was reported on your return, you need to send a letter of explanation back to the IRS.

Your tax preparer may be the best person to handle these letter-writing tasks. He or she may be able to resolve the issue quickly and avoid lengthy correspondence with the IRS.

### Summary

The IRS does initiate correspondence on tax matters. Each correspondence should be handled on a case-by-case basis, and should **never be ignored**. The important thing to remember is to stay calm. Unless you are very comfortable with what the IRS requests, discuss the matter with your tax preparer before responding.

This brochure contains general tax information for taxpayers. As each tax situation may be different, do not rely upon this information as your sole source of authority. Please seek professional advice for all tax situations.

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# Contact from the IRS



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