

# What to do if your tax return is questioned

PHILADELPHIA — Your 1979 income tax return may be one of many that the IRS randomly selects for audit each year, so while you are preparing your return, keep that in mind.

A tax audit, says John W. Munnell, CPA, President of the South Central Chapter of the Pennsylvania Institute of Certified Public Accountants, can be pretty painless if you have all the necessary documentation.

What makes an audit difficult, Munnell says, is it usually takes place a year or two after your return has been filed, and by then you might have trouble remembering a former business contact's name, not to mention your reason for taking him and his wife out to dinner back in 1979.

So right now, with events fresh in your mind and documentation still at hand, is the time to prepare for that IRS interview you hope never takes place. As you assemble the facts that will go into your 1979 Form 1040, retain the receipts and cancelled checks that support your tax data. File them with your copy of the tax return.

Not only will this help you prove, if necessary, that you did indeed spend a great deal of money having your son's teeth straightened, but the existence of such thorough documentation could also serve to reassure an IRS examiner that your return would probably stand up to careful examination in any other area.

However, should you be unable to document a substantial deduction, the agent may be much more likely to keep on digging.

Although it's often possible to come up with proof by consulting other people's records — the orthodontist's, for example — this would

necessitate at least one more visit with the IRS. Full, orderly documentation tends to keep contacts with the IRS short and sweet.

Should a taxpayer try to head off a possible audit by holding deductions within the average amounts claimed by persons in his tax bracket?

Certainly not, advises the Pennsylvania Institute of Certified Public Accountants; there is no sound reason for passing up legitimate claims. If your deductions are especially high, though, that's all the more reason for saving your documentation.

Also, maintaining a low profile by trying to keep within the "average" range is no assurance that you will avoid an audit. Returns pulled for audit (about one in fifty) are selected by computer, and no one outside the IRS knows exactly what criteria is used in the selection process.

We do know, however, that some returns are picked strictly at random, so there is no sure way to prevent an audit.

IRS auditors can and do question any part of a return, whether all taxable income is reported, claimed exemptions are legitimate, and deductions are justified and accurately reported. But when they notify you that your return is to be

reviewed, they generally indicate the areas in question, so it is only necessary for you or your professional tax advisor to bring documentation for matters in doubt.

Keep in mind the examination can be expanded to other areas.

Randomly-selected tax returns are examined in detail each year as part of an ongoing IRS study of the degree of taxpayer compliance with the Internal Revenue Code.

If you are chosen for one of these examinations, expect to be questioned in depth about any or all aspects of your return — and about financial data not even included on the return.

In its conventional audits of computer-selected returns, IRS each year gives extra emphasis in certain areas. Right now, and for some months to come,

agents auditing returns (most of which are for 1978) have been instructed to look closely for:

Unreported gains on sales of stock or other assets.

Unreported stock dividends and state tax refunds.

Gambling casino winnings.

Closing out of tax shelters, which often results in realization of income.

Sales of homes (without replacement) by persons who got the home-purchase tax credit in 1975 or 1976.

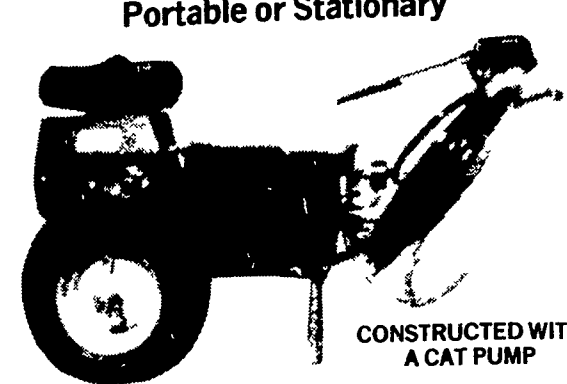
Off-the-record barter transactions.

What areas will be receiving special attention when IRS gets around to auditing the 1979 returns is anybody's guess, but those who follow the CPA's advice and save documentary evidence should have no reason to be concerned.



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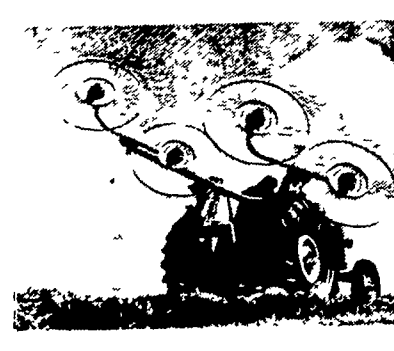
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