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U.S. IRS Audit Introduction

An IRS audit is a review/examination of an organization's or individual's accounts and financial information to ensure information is reported correctly according to the tax laws and to verify the reported amount of tax is correct.

The IRS uses several different methods:

- **Statistical Models**
The IRS utilizes statistical models to select tax returns that are the most likely to contain errors and yield significant amounts of additional tax revenue upon audit.
- **Random Selection**
In addition to the statistical selection of returns to be audited, a small number of additional returns are manually selected.
- **Prior Year Audit**
If the taxpayer was audited in a prior year and the prior audit led to assessment of a substantial deficiency, a subsequent year may be audited.
- **Information Return Discrepancy**
If information forms such as W-2s and 1099s do not match the amounts reported on a return, or if information is received from other sources on potential noncompliance, an audit may be triggered.
- **Related examinations**
The IRS may select your returns when they involve issues or transactions with other taxpayers, such as business partners or investors, whose returns were selected for audit.

Most returns are audited within two years from the date of filing of the return. IRS usually does not go back more than the last six years. However, if the IRS identifies a substantial error, it may add additional years.

The IRS manages audits either by mail or through an in-person interview to review your records. If the IRS conducts your audit by mail, the letter will request additional information about certain items shown on the tax return such as income, expenses, and itemized deductions. A correspondence audit usually arises as a result of IRS review for information errors, matching issues and mathematical errors. There will be no need for a formal meeting with an IRS representative.

The interview may be at an IRS office (office audit) or at the taxpayer's home, place of business, or accountant's office (field audit). Taxpayer will be contacted initially by mail. The IRS will provide all contact information and instructions in the letter you will receive.

The length of the audit varies depending on the type of audit; the complexity of the issues; the availability of information requested; the availability of both parties for scheduling meetings; and your agreement or disagreement with the findings.

An audit can be concluded in three ways:

- No change: an audit in which you have substantiated all of the items being reviewed and results in no changes.
- Agreed: an audit where the IRS proposed changes and you understand and agree with the changes.
- Disagreed: an audit where the IRS has proposed changes and you understand but disagree with the changes. The taxpayer receives a copy of the Revenue Agent's report and a 30-day letter notifying the taxpayer of the right to appeal. The taxpayer has 30-days to request an administrative appeal with an appeals officer.

Reference:

<https://www.irs.gov/businesses/small-businesses-self-employed/irs-audits>

If you wish to obtain more information or assistance, please visit our official website at www.kaizencpa.com or contact us through the following methods:

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