



October 31, 2011

10 Ways to Avoid an Audit (or Reduce Chances of it) part 2

Here are 5 more ways to audit-proof your tax return.

6. Compile your tax return in proper order

The IRS requires you to compile your returns in a certain order, so follow their instructions. This usually that means compiling the return itself, and then the schedules in alphabetical order, ancillary forms in numerical order, and finally plain paper statements and footnotes. Include your Forms W-2 where specified. You do not have to enclose other forms that are not required, such as your 1099's.

7. Disclose only what is necessary

Do not make the mistake of disclosing too much information to the IRS. I am not advocating that you deceive the IRS or hide material facts pertaining to your tax return. But often there is no need to disclose additional information apart from declaring the facts unless the IRS requests for them. This means you usually do not need to send copies of your bank statements, sales and purchase agreements and other agreements to the IRS unless you are asked to do so.

8. To pay or contest?

If you receive a small bill from the IRS, it's usually better to pay it rather than contest it. This is more for practical reasons rather than the principle of it. If you contest it, it gives the IRS the opportunity to look more closely into your case, and in such a case, you risk becoming liable for a bigger tax bill. So if the amount is not substantial to you, you would be better of settling the bill and moving on.

9. Think before amending

Sometimes you may be entitled to a refund if you amend something in your return. For example, if you forgot to include a tax deductible expense, you may be able to claim a refund. But if the amount you can get back is small, it would do you better to let it pass.

The reason for this is that amended returns get more attention from the IRS than initial ones. So you may be inviting bigger problems if other matters on your return, unrelated to the amendment, are reviewed by the IRS.

10. Apply your refund to future taxes

Instead of asking for a refund in cash, a smarter move would be to apply it to your future taxes, unless you desperately need a cash refund. This invites less attention from the IRS than a cash refund. This applies to both initial refunds and amended ones.

So here are 10 tips to audit-proof your tax returns. Take action on them in the coming tax season.