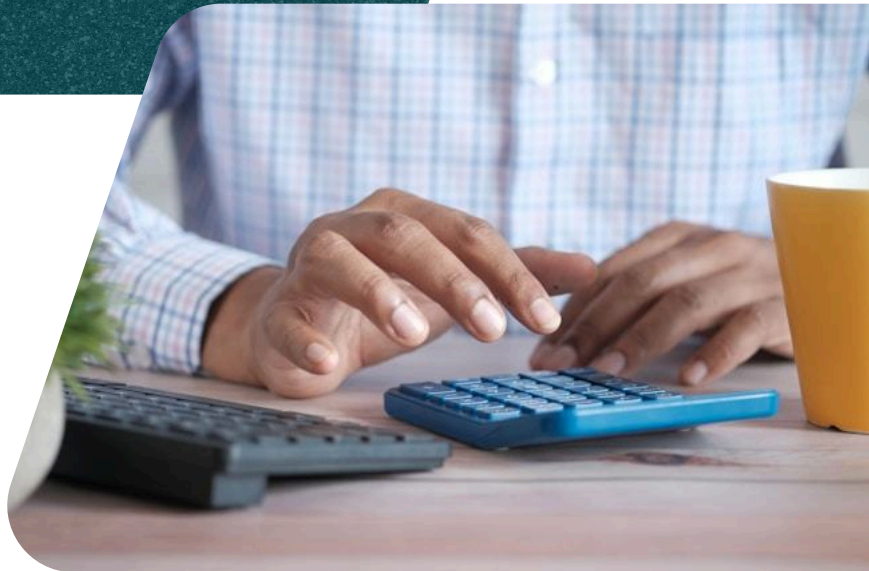


# IRS Audit Pitfalls

Empowering  
Accountants with  
Essential Legal  
Knowledge



## Outline

*"Avoiding Mistakes in IRS Audits that Could Jeopardize Your Client's Case: An Indispensable Legal Guide for Accountants"*

### Introduction

- Address common errors made in IRS audits and how accountants can avoid them.
- Our mission is to empower accountants with the knowledge to avoid critical errors in IRS audits by sharing tips from tax litigation attorneys.

### Section 1: The Landscape of IRS Audits

1. Understanding the Stakes
  - IRS audits pose serious threats to your clients' financial well-being, and in some cases, their freedom.
  - Procedural or strategic mistakes during audits can result in devastating financial consequences. In serious cases, criminal issues may lead to prosecution or incarceration.

### Section 2: Avoiding Common Errors Made During Audits

1. Poor Communication
2. Lack of Cooperation and the Burden of Proof
3. Submission errors
  - Privileges and opening up new issues
4. Missed Deadlines
  - Don't mistakenly waive your clients' key legal rights.

### Section 3: Strategic Collaboration with Attorneys in Sensitive Audits

1. Recognizing When to Engage Legal Expertise
  - Identify scenarios where legal consultation is imperative.
  - Preparing for audits through proactive legal strategy and partnership.
2. Effective Collaboration During the Audit Process
  - Explain the tax litigation attorney's role in an IRS audit handled by an accountant.
  - Outline key strategies when handling an audit along with an attorney.

### Conclusion: Steering Towards Success

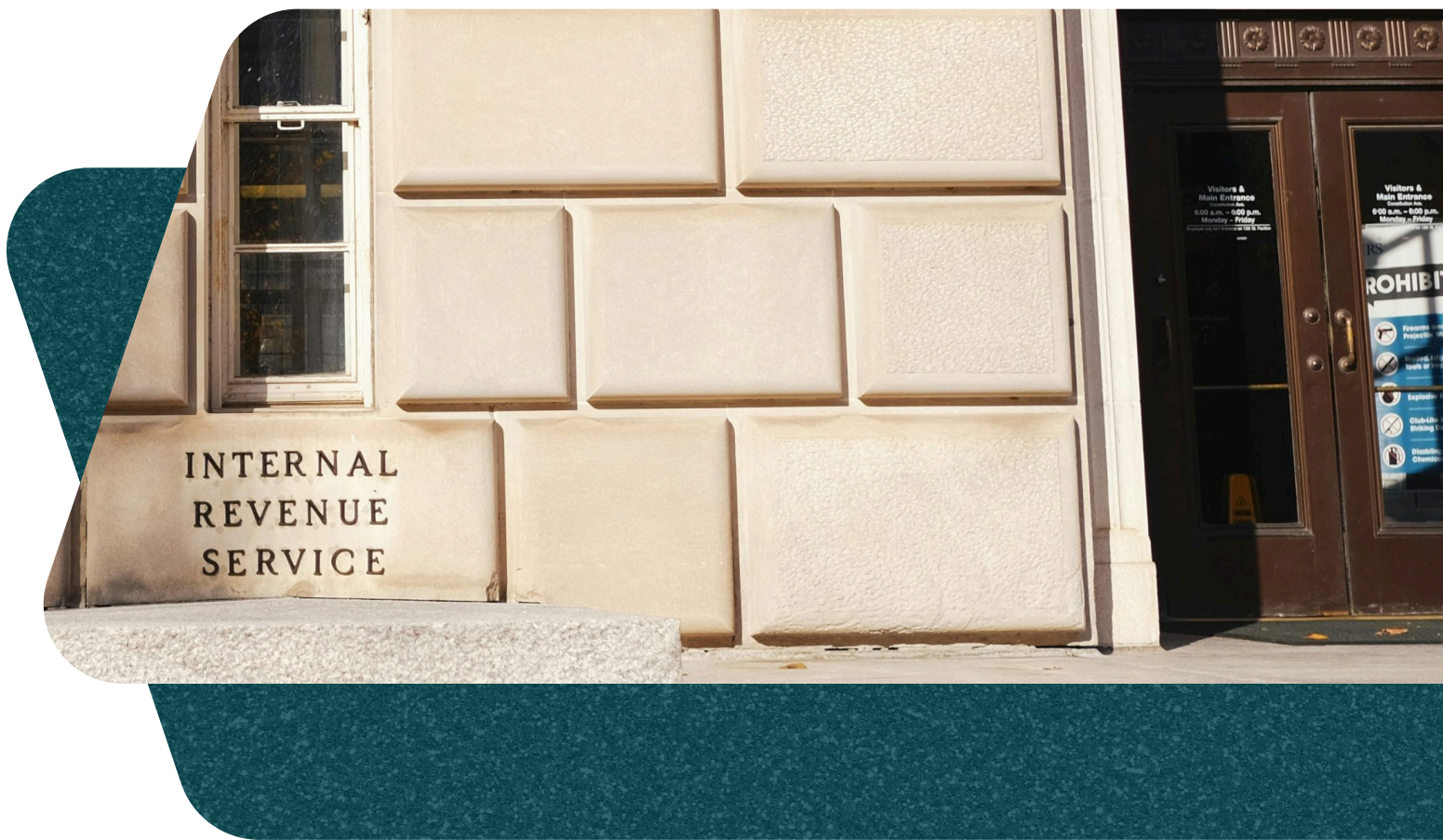
1. Key Strategies for Success
  - Reinforce the critical importance of avoiding errors in audits, common errors, and timely legal collaboration.
2. Connect with Sideman and Bancroft
  - We can help implement the strategies outlined to mitigate risk to their clients and to protect their practice's reputation.
  - We invite accountants to connect with us for personalized guidance or strategic assistance.

## Introduction

Navigating an IRS audit? It's a high-stakes game where even minor errors can have major consequences. Many accountants, regardless of experience, stumble on common pitfalls that could be easily avoided.

**"IRS Audit Pitfalls - Empowering Accountants with Essential Legal Knowledge"** is your insider's guide to navigating these audits with precision. Crafted with insights from Sideman & Bancroft's top tax litigation attorneys, this guide aims to arm you with the strategies you need to avoid critical missteps.

Our mission is straightforward: to empower you with expert knowledge and turning potential pitfalls into opportunities for success.





## Section 1

# The Landscape of IRS Audits

## Understanding the Stakes

In the realm of IRS audits, precision and foresight are paramount. As experienced accountants, you understand that these audits extend beyond routine checks, posing significant risks to your clients' financial well-being and, in severe cases, their personal freedom. The line between a successfully navigated audit and a disastrous outcome hinges on meticulous preparation and strategic approach.

Procedural or strategic missteps during an audit can result in substantial financial repercussions. These include hefty fines, penalties, and back taxes that can severely impact your clients' financial standing and business operations. Furthermore, the ramifications of an audit can erode client trust and damage reputations built over years.

The stakes escalate considerably in scenarios where audits identify potential criminal issues, such as tax evasion or fraud. These situations heighten the risks beyond financial loss, exposing clients to criminal charges, prosecution, and the possibility of incarceration.

This discussion is designed not to reiterate familiar concepts but to enhance your comprehension of the complex audit environment. Drawing on insights from Sideman & Bancroft's esteemed tax litigation attorneys, this section aims to refine your audit strategies and equip you with advanced knowledge to mitigate risks effectively.

By deepening your understanding and aligning with expert legal partners, you can protect your clients from the severe consequences of audit mismanagement and reinforce your role as an indispensable advisor. Explore how to navigate these high-stake situations and leverage comprehensive legal insights to maintain a decisive edge in the audit landscape.



## Section 2

### Avoiding Common Errors Made During Audits

Navigating an IRS audit requires more than just an understanding of tax codes; it demands precision in communication, attention to deadlines, and strategic handling of documentation. This section highlights common errors during audits and provides actionable insights to avoid them, ensuring the best possible outcome for your clients.

By avoiding these common errors and implementing the strategies and tools provided in this section, you can better manage the audit process, protect your clients' interests, and uphold their legal rights effectively.



#### Poor Communication

Effective communication with IRS agents is critical. Misunderstandings or lack of clear communication can lead to confusion, misinterpretation of information, and unfavorable outcomes. Ensure all communications are concise, clear, and professional.



#### Lack of Cooperation and the Burden of Proof

An uncooperative stance can hinder progress and escalate the situation. Remember, the burden of proof lies predominantly with the taxpayer. Provide requested documents promptly and maintain a cooperative attitude throughout the process.



#### Submission Errors – Privileges and Opening Up New Issues

Carefully review all submissions to avoid errors that could prompt further scrutiny or inadvertently open up new issues. Pay close attention to claiming privileges correctly and ensuring that all documentation is precise and complete.



#### Missed Deadlines: Don't Mistakenly Waive Your Client's Key Legal Rights

In extreme cases, tax authorities may seize and sell your assets, such as real estate, vehicles, or other personal property, to satisfy the unpaid tax debt.

*By avoiding these common errors and implementing the strategies and tools provided in this section, you can better manage the audit process, protect your clients' interests, and uphold their legal rights effectively.*

## Section 3

# Strategic Collaboration with Attorneys in Sensitive Audits

When a tax dispute escalates beyond routine matters, collaborating with legal expertise can be crucial for navigating sensitive audits. Establishing a strategic partnership with a tax litigation attorney not only solidifies the defense but also positions your client for the best possible outcome.



### 1. Recognizing When to Engage Legal Expertise

Understanding when to bring in an attorney can make the difference between resolving an audit smoothly and facing prolonged complications. Situations warranting legal engagement include:

- Complex or high-stakes audits where potential penalties are significant.
- Discovery of potential criminal implications, such as accusations of tax evasion or fraud.
- Disputes involving large sums, complex financial arrangements, or international elements.
- Instances where the IRS has issued summonses for records or testimony.

#### *Example*

A small business owner receives an audit notice for underreporting income over several years. The accountant realizes that the potential penalties are substantial and advises engaging a tax attorney to construct a robust legal defense and handle negotiations with the IRS.



### 2. Effective Collaboration During the Audit Process

Once it's clear that legal expertise is required, the next step involves effective collaboration. Understanding the distinct roles and how they complement each other is vital:

The Role of a Tax Litigation Attorney:

- Provide legal advice on complex tax issues.
- Represent the client in discussions or disputes with the IRS.
- Assist in interpreting IRS requests and responding appropriately.
- Strategize possible defenses and negotiate settlements.

## Section 3

# Strategic Collaboration with Attorneys in Sensitive Audits (cont.)

## Key Strategies for Collaboration

### 1. Early Integration and Clear Communication

- Begin collaborate together from the onset of the audit to align strategies.
- Schedule regular check-ins to ensure both the accounting and legal teams are informed of all developments.

### 2. Defining Roles and Responsibilities

- Clearly delineate tasks—accountants manage financial analysis and documentation, while attorneys handle legal interpretations and defense strategies.
- Establish a mutual understanding of areas where responsibilities overlap.

### 3. Leveraging Each Other's Expertise

- Use the accountant's intricate knowledge of financial records and tax compliance to fortify the legal arguments.
- Rely on the attorney's expertise to navigate legal pitfalls, ensure compliance with procedural requirements, and mitigate risks.





## Section 3

# Strategic Collaboration with Attorneys in Sensitive Audits (cont.)

### Real-World Example

Imagine an accountant, Sarah, working with a client who owns a consultancy firm and is being audited for years of back taxes due to alleged underreporting of income. Sarah recognizes the gravity of the situation and brings in a tax attorney, Michael. They develop a unified strategy:

#### Initial Consultation

Michael advises on potential legal risks and suggests a plan for responding to IRS inquiries.

#### Document Preparation

Sarah compiles comprehensive financial records, ensuring every aspect is thoroughly documented and ready for Michael's review.

#### Responding to Summons

When the IRS issues a summons for further records, Michael navigates the legal complexities, ensuring that client privilege and rights are protected.

#### Negotiation and Settlement

Michael represents the client in negotiations, using the financial insights provided by Sarah to propose a feasible settlement that minimizes penalties.

*Together, their collaboration results in a significantly reduced penalty, avoiding potential legal repercussions and resolving the audit favorably.*

By recognizing scenarios needing legal expertise and fostering effective collaboration, accountants can elevate their role in handling sensitive audits. This partnership not only protects client interests but also ensures a comprehensive approach combining financial acumen and legal strategy to navigate complex tax disputes successfully.



Department of the Treasury  
Internal Revenue Service

Publication 5  
Cat. No. 15008E

## Tax Withholding and Estimated Tax

### SCHEDULE D (Form 1040)

Department of the Treasury  
Internal Revenue Service (99)

Name(s) shown on return

#### Part I Short-Term Capital Gains

See instructions for how to complete this part.

This form may be easier to use if you use whole dollars.

1a Totals for all short-term capital gains for which you have a basis on Form 8949, line 1

1b Totals for all short-term capital gains for which you have a basis on Form 8949, line 2

2 Totals for all short-term capital gains for which you have a basis on Form 8949, line 3

3 Totals for all short-term capital gains for which you have a basis on Form 8949, line 4

4 Short-term gain

5 Net short-term capital gain

6 Short-term capital gain worksheet

7 Net short-term capital gain

#### Part II Long-Term Capital Gains

See instructions for how to complete this part.

This form may be easier to use if you use whole dollars.

8a Totals for all long-term capital gains for which you have a basis on Form 8949, line 1

8b Totals for all long-term capital gains for which you have a basis on Form 8949, line 2

9 Totals for all long-term capital gains for which you have a basis on Form 8949, line 3

10 Totals for all long-term capital gains for which you have a basis on Form 8949, line 4

11 Gain from Form 8949, line 4

Mar 04, 2019

## Conclusion

## Steering Towards Success

In navigating the complexities of audits, it's crucial to implement strategies that safeguard both your clients and your practice.

### Key Strategies for Success



#### Timely Legal Collaboration

Engage legal expertise early to avoid common audit errors and mitigate risks effectively.



#### Proactive Preparation

Prepare with a clear strategy and maintain active communication between accountants and attorneys.



#### Avoid Common Pitfalls

Ensure accurate documentation and prompt responses to IRS queries, guided by legal advice.

*Your ability to combine accounting expertise with legal insight is essential for a successful audit outcome.*

Implement these strategies to protect your clients and uphold your firm's reputation.

For personalized guidance, leverage the extensive experience of Sideman and Bancroft. Their experience in strategic legal assistance is invaluable for navigating high-stakes audits.

## Connect with Sideman and Bancroft

Reach out today to benefit from our specialized knowledge and ensure your practice is well-prepared for any audit challenge.

[Contact Sideman and Bancroft](#)

Let us support you in steering towards audit success.