

BAINBRIDGE BANTER

SERVING BAINBRIDGE, AUBURN & S. RUSSELL

Vol. 14 No. 19

“Your Community Voice”

April 30, 2004

BUSINESS BANTER

Timely Tax Tips: What to do when you get “the letter”

By Cynthia Hatfield

Arrgh!! No one likes to receive mail from the U. S. Government, especially when they are writing to inform you of a tax return discrepancy or, worse, an audit. But, before you panic, here are a few things to keep in mind, should your name be on the address label.

First, and foremost - don't throw the letter away or bury it in your endless pile of unfiled mail! All of these types of documents are time sensitive, and the sooner you deal with the issue at hand, the better off you will be, both financially and emotionally. Do collect the tax return for the year in question and the

information you or your accountant compiled supporting its preparation.

Next, there are several types of letters. The friendliest version of these letters reminds you that you forgot to claim the additional child tax credit, or an additional tax payment was made which you did not include with your other estimates. Then, the good news is that there is a refund in the works! Usually, you can just compare this information with your records, and wait for the check to come in the mail.

Another type of letter, the CP 2000, is a matching document which is released generally during the summer months for returns filed in April. This letter claims a

discrepancy between figures reported on your tax return and the IRS's version of matching documents, such as 1099's for interest, dividends, miscellaneous income, or 1098's for mortgage interest.

These letters are frequently incorrect! It is entirely possible that your return was prepared correctly, or that the IRS doesn't have the “most recently corrected” version of form 1099 on file. Whichever the case may be, don't panic, simply assemble the documents, and compare the letter to your records. You may want to seek assistance at this point, especially if the variance is large.

The final and perhaps most dreaded

letter is the audit letter. The IRS has recently hired additional auditors, and they are increasing random audits as well as flagging potentially suspicious returns. There are several types of audits ranging from audits of limited items or income categories, to audits of every line item on the return. My best advice on this topic is, once again, Don't Panic! Secondly, contact your CPA, and begin to assemble the necessary documents used in the preparation of your return for the year in question. Do not contact the IRS and attempt to handle this on your own! You may inadvertently say something to the IRS agent which may harm you, or your case. Such a faux pas or misstatement could cost you thousands of dollars!

Memorize these steps:

1. Don't panic,
2. Assemble your records, and
3. Seek assistance if it is a large variance or an audit.

If you have questions or comments regarding this article, please direct them to Bainbridge resident Cynthia Hatfield, CPA Tax Manager at Zinner & Co. LLP chatfield@zinnerco.com, or call her at 216-831-0733.