Surviving an IRS Audit

What to expect and do when Uncle Sam comes calling

Most of us file and pay our taxes each year, and that's the only time we'll have any interaction with the Internal Revenue Service (IRS). However, statistics from the Treasury Inspector General for Tax Administration show that last year, 1.48 million taxpayers were invited to spend a little extra quality time with the IRS because they underwent an individual audit. While being selected for audit by the IRS can be nerve racking, experts say keeping calm and carrying on will help you navigate an audit.

If you receive a notice that the IRS is going to audit you, don't panic. There are simple ways to prepare yourself and your financial information to make the audit process go more smoothly. An audit doesn't have to be the traumatic experience everyone imagines it to be.

Greetings from the IRS

The IRS will notify you of an impending audit by telephone or snail mail. The IRS does not use email to contact taxpayers. And just because you get that call or letter, don't panic. If the IRS thinks you made a minor mistake, such as simple math errors, omitted items, transposed Social Security numbers, or if figures don't match W-2s, 1099s, or 1098s, the IRS may simply request a correction or explanation by mail. The IRS will send you a notice advising you it has recalculated your tax. You may be asked to submit additional documentation to back up amounts reported on your return.

According to the IRS, paper requests or requests for more information rarely lead to full audits. Simply respond to the notice and send the requested documentation.

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Five Tips for Living Peacefully with 'Boomerang Kids'

Due to the recent recession and continuing economic weakness, more and more adult children are still living with their parents or have moved back in with them. In fact, the percentage of 20-to- 34 year olds who live with their parents jumped from 17 percent in 1980 to 24 percent during the recession, according to a USA 2010 survey. The rise was greatest for adults under 25, with 43 percent living at home. How can parents navigate the challenges, financial and otherwise, of living with these "boomerang kids"? The Oregon Society of CPAs offers some smart ideas.

Accentuate the Positives

It may be tempting to see the arrangement as a failure to leave the nest, but it's better to focus on the positives. Financial benefits to the child include the chance to save up for the future, switch to a more rewarding job, or pay off college loans or other debts sooner. It can also lower costs for the parents if the child pays rent or chips in on expenses. Looking at the upside can help decrease stress levels.

Consider a Contract

The living situation will work best if both parents and child have a complete understanding of what the other expects. Parents should determine up front exactly how much the child will contribute to household costs and what their responsibilities around the house will be. For example, will they be expected to pay rent? Help out with utilities costs? Will they pay for their own food and make their own meals or eat with their parents? Who will care for—and pay expenses for—the adult child's pets or children? These are the kinds of questions that should be addressed early on. Parents may even consider putting together an informal contract that spells out these and other appropriate details.

> According to a survey conducted in 2010, up to 43 percent of adults under 25 live at home with their parents

Determine Your Level of Support

Understanding expectations is particularly important if the adult child is not working. In this case, will the parents pay his or her expenses and provide pocket money? If they will, should it be considered a gift or a loan? How long are the parents willing to help out financially this way? How much time do the parents expect their child to spend on job searches or in jobs that aren't in the child's chosen field but that do bring in cash? These can be uncomfortable issues to raise, but addressing them will contribute to a better living situation. Once rules have been established for the level of support, everyone should make sure they stick to them.

Respect Each Other

Parents of adult children must understand that even though their children are back under the family roof, they are adults who must be allowed their own autonomy. At the same time, the adult children have to acknowledge that their parents have interests and responsibilities beyond their role as parents and respect their needs without taking advantage of them. Be prepared for an adjustment period in which both sides learn to see each other as independent adults.

Think about the Future

Will the arrangement last indefinitely or will it end at a certain point in time; for example, when the adult child finishes further education that will qualify him or her for a new job or when the adult child gets a raise to a certain income level? No matter what the answer, it's a good idea to discuss short and long-term plans. If you don't, it could lead to resentment and misunderstandings down the road.

A CPA Can Help

If you are undergoing an IRS audit, consider working with a CPA. A CPA can help you prepare for and navigate the process and act as your representative with the IRS. A CPA will help you understand the process, explain what questions you will be asked and determine what documents you'll need to present. Being flagged for an audit underscores the importance of maintaining organized records all year, not just at tax time. Responding to the IRS in a timely manner, presenting organized information, and working closely with a CPA will help you approach your IRS audit with confidence.