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10 Tips to Avoid a Tax Audit (part 1)

Nobody likes to fight with the IRS and usually those who do don't win. For this reason, nobody likes facing an audit as it usually means having to argue with the IRS over how much taxes you owe. So if you want to learn how to avoid a tax audit, read on.

Tip #1 – Do not simply claim deductions

The first thing to bear in mind is not to make claims for deductions that you cannot defend. If you are not completely sure you are entitled to it, do not claim it. If you make reasonable claims, you will probably not have to defend them. Then even if you are summoned for an audit, you have nothing to worry about. So if you cannot fully substantiate that vacation you took as a business trip, don't claim for it or if your personal loss-making business is really only a hobby, don't call it a business.

Tip #2 – Engage a professional or use software

The services of a tax expert like an enrolled agent, tax attorney or CPA is useful in preparing your tax submission for you or at least advising you on it. On the other hand, if you are the DIY type, you should use tax preparation software like TurboTax (by Intuit) or Taxcut (by H&R Block) to avoid making mistakes and make the process faster and easier.

Tip #3 – Check your calculations

Always check and recheck you calculations to make sure you have not made any errors. This is another reason to use tax software. It will cut down the time you take to prepare your taxes and avoid the possibility of

making calculation errors. However, if you do make a mistake in calculations, you will probably receive a math correction notice from the IRS. This is not an audit. But you should avoid receiving even this so that you do not have any contact with the IRS bureaucracy as far as possible.

This brings me to my next tip.

Tip #4 – File manually

Why should you file manually while most taxpayers are filing electronically? Because filing electronically gives the IRS easy electronic access to the information they would otherwise have to manually go through if you submit the old fashioned way. You are to be honest and accurate in your submission but no one says you have to make it easy for them. This makes it is less likely for you to be audited.

But there are pros and cons to this tip. Obviously, e-filing is quicker, more convenient and cheaper than manual filing. So I suggest that if your taxes are straightforward, like if your tax returns are short form (Form 1040EZ or 1040A) or if you are expecting a refund and need it quickly, then you don't really need this tip. But if your tax returns are complicated, this tip might be useful for you.

Stay tuned for my next article where I will share 6 more tips to avoid an audit.