

## *Sy Accountancy Corporation*

Member, American Institute of CPAs

704 Mira Monte Place, Pasadena, California 91101

Tel (626) 744-0200 • Fax (626) 744-0300 • vsy@victorsycpa.com • www.victorsycpa.com

### HOW TO SPOT AN IRS FRAUD AUDIT

By Victor Sy, CPA, MBA

It started with a letter from the IRS. Your tax return has been selected for examination. You suspect that something is wrong. Is it possible that the agent suspects fraud? Is it probable that you have been referred to CID (Criminal Investigation Division)? If so, you need help. In a hurry! It would be foolish not to set up a defense. Are there indicators to predict such fraud audit?

Let's identify 10 red flags to warn you that the IRS is turning the heat up on you.

1. The agent performs a cash deposit analysis and finds that deposits materially exceed reported income.
2. The agent asks about other bank deposits, safety deposit boxes, or offshore bank accounts.
3. The agent requests detailed information about your life style and spending habits.
4. The agent begins requesting copies of every document that you show him.
5. Suddenly, it is difficult to communicate with the agent.
6. The agent begins to contact third parties regarding payments made to you or received from you.
7. The agent insists on meeting with you despite your having a representative.
8. The agent insists on meeting in your place of business or home instead of your representative's office.
9. The agent stops working on your case.
10. You are visited by two special agents (the second agent's role is to provide corroborating testimony).

What should you do at this time? Here are a few tips:

1. Do not talk to any IRS personnel anymore.
2. Verify the identity of any agent who comes to your premises. Get a business card.
7. Hire a CPA or criminal tax lawyer to represent you.
3. Refer all calls for documentation or explanation to your tax representative.
4. Do not provide any more documentation directly to the agents. Go through your rep.
5. Prepare memoranda of all meetings, dates, people, questions and responses.
6. List and copy each page that you provide to the IRS.

**WORD OF ADVICE:** Do not take fraud cases lightly. As soon as one or a combination of these red flags appear, hire a representative. This is not the time to be cheap. Defend yourself properly.

**Development:** Beware – Criminal investigations increased 8% the other year. Over 90% of indictments resulted in convictions. Traditional tax evasion cases make up 50% of cases. IRS hopes to increase time spent on unreported income to 70%.