

**Georgia Society of CPAs
North Perimeter Chapter
The IRS Interview:
Prepare, Survive, and Thrive
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- 1) New IRS Approach
 - a) **Service + Enforcement = COMPLIANCE**
 - b) **Lunch** with the IRS
 - c) New Agents on board
 - i) Higher grade levels
 - ii) Less Experience

- 2) The IRS Interview
 - a) The most important step in the audit
 - b) The contact, how, when, and who?
 - c) Who should attend the interview?
 - d) How do you prepare?
 - e) Initial Information request from the Agent

- 3) General information on the return
 - a) Power of Attorney
 - b) Prior audits; issues and results
 - c) Paid preparer details
 - d) Financial statements
 - i) Internal statements
 - ii) External statements- compilation, review, or audit
 - iii) Amended returns
 - iv) Minute book (may ask for all—only needs current year)
 - v) Bank statements for month prior to year through month after year
 - vi) Gifts, inheritances, any non-taxable source
 - vii) Do you have a cash hoard? (if so, where and how much)

- 4) Corporate Officer(s) and Shareholder(s)
 - a) Name(s), title(s), and duties
 - b) Ownership percentages
 - c) Recent changes in ownership
 - d) Copies of shareholder(s) individual return for years covered by examination for inspection.
 - e) S Corporation- shareholder(s) basis computation

- 5) Related Entities
 - a) Ownership
 - b) Services to and business from entity under examination



- 6) Business History
 - a) Business activities
 - b) When and how was entity formed
 - c) What was contributed to the entity
 - d) Any bartering activity
 - e) How many business locations
 - f) Any unusual events during the exam year
 - g) Policy on bad debts and uncollectible loans

- 7) Corporate Transaction
 - a) Major Suppliers/vendors
 - b) Major Customers
 - c) Are activities cyclical

- 8) Payroll and related activity
 - a) Employees or independent contractor (all required returns filed?)
 - b) Bonus Policy
 - c) Fringe Benefits
 - i) What are the benefits
 - ii) Taxable or non-taxable

- 9) Travel and Entertainment Expenses
 - a) Accountable plan (5 Ws- When, where, what, why, and who)
 - b) Credit Cards for employees, owners, etc.
 - c) Club dues
 - d) Documentation of “contemporaneous records”

- 10) Vehicles
 - a) Lease or Purchase
 - b) List of vehicles and how they are used
 - c) Personal use of vehicle recorded

- 11) Banking
 - a) Where does the corporation maintain bank accounts
 - b) Purpose of each account
 - c) Any loans outstanding during the year
 - d) Loans repaid to you during the year
 - e) Identify transfers between accounts
 - f) Accounts reconciled monthly

- 12) Inventory
 - a) Detail of physical inventory at year-end
 - b) Write-downs properly handled
 - c) Valuation- LIFO, FIFO, FISH



13) Accounting System

- a) What type of books and records are maintained (G/L, C/R., C/D, A/R, A/P)
- b) Who is responsible for the following:
 - i) General bookkeeping
 - ii) Cash receipts
 - iii) A/R
 - iv) A/P
 - v) Purchases/Inventory
 - vi) Method of Accounting

14) Internal Control

- a) How do you handle cash sales
- b) Who reconciles bank account
- c) Who makes the deposits
 - i) How often
 - ii) Are all sales and cash deposited in bank
 - iii) What happens to void check(s)?
- d) Policy on expensing vs. capitalizing items
- e) Petty cash account- how much and when is it replenished

15) Related Transactions

- a) Any business with shareholder(s)
- b) Notes/loans to officers or shareholders
- c) Officer/shareholder(s) use of company asset.

16) Minute Book regarding approval for:

- a) Compensation/ bonus
- b) Loans/advances
- c) Benefits for the company and specifically for Officer(s)/Shareholder(s)
- d) Expenses paid for Officer(s)/shareholder(s)

17) Other Questions

- a) All income included in return?
- b) Are you now aware of any additional deductions, erroneous deductions, or any omissions of income?
- c) S Corporation material participation?

18) Abusive Tax shelters and Listed Transactions

- a) Need positive statement from taxpayer
- b) Description of transaction (see attached)
- c) How do you respond?



19) Lifestyle and economic reality audit questions

- a) Are you a United States Citizen?
- b) How long have you been in this country?
- c) Date of birth
- d) Confirm current return is on extension
- e) Either spouse previously married?
 - i) Paying or receiving alimony
 - ii) How much and to/from who?
- f) Educations background of taxpayers- highest level achieved- degree
- g) Date of birth of children
- h) Purchase documents- application of loan, closing documents, mortgage holder;
- i) What other real estate do you own and when acquired?
- j) Make any improvements during the tax year? What and how did you pay for it?
- k) How many autos do you own? What are they and how did you buy them?
- l) Did you sell any assets? If so, to who and for what?
- m) Did you loan anyone money?
- n) Did you receive repayments on any loaned money?
- o) What loans do you have other than autos and home noted above?
- p) Do you take cash advances on credit cards or LOCs?
- q) What cash did you have on hand during the tax year, not in a bank—at home, safe deposit, or hidden?
- r) What is the largest amount of cash you had at one time?
- s) Did you transfer funds between accounts?
- t) Did you ever redeposit funds previously withdrawn from your account?
- u) Do you have a safe deposit box? Where and what do you keep in it?
- v) Were you involved in any cash transaction of \$10,000 or more?
- w) What is your health status: any infirmities, treatment and recoveries?
- x) What are your hobbies?
- y) Education of children and other family members? Where, how extensive, and how financed?

20) Resources:

- a) AICPA Sample IRS Corporate Audit Format (Tax Practice Guides)
- b) AICPA IRS Examination Guide (Tax Practice Guides)
- c) IRS Listed Transactions (www.irs.gov)
- d) IRS Market Segmentation (IRM)

21) Secret to Success in an IRS audit? Remember 3 Things.

- a) Large fish mounted on the wall
- b) Wet cement with footprints
- c) Mountain range with a road winding through it

