

**AUDIT REPORT**

**Overview**

A guide to critical information about your tax return.

**SUMMARY.**

Thank you for selecting Clear Tax to provide you with an Audit Report.

Your Audit Report contains important information regarding your risk of an IRS audit. If you are currently under examination by IRS, the information in your Audit Report may impact the result of your IRS audit. Information included in your Audit Report includes:

- What to expect during an IRS audit
- Why your audit was opened
- Business income analysis
- High risk items flagged and analyzed
- Reference to Internal Revenue Code
- Potential defenses and strategies to resolve an issue

**SNAPSHOT.**

Below is a summary of the issues identified on your 2013 personal income tax return, which IRS may examine during your audit. Each identified issue includes information on the amount you reported on your income tax return as well as the potential adjustment for both income and expense items.

**Risk Assessment Income**

Income items on your return are analyzed and flagged to identify potential adjustments by IRS. Risk levels are to alert you.

INCOME			
Issue	Reported on Return	Amount at Risk	Risk Level <sup>1</sup>
Charitable contributions (deduction)	\$80,247	<\$13,358>	Medium
Gambling	\$67,725	\$67,725	Medium
Sch. C – Business Income	\$1.4M	\$400k	High

**Risk Assessment Expenses**

Expense items are reviewed and flagged with explanations of the legal requirements and practical issues to address with IRS.

EXPENSES			
Issue	Reported on Return	Amount of Risk	Risk Level <sup>1</sup>
Sch. C – Taxes & Licenses	\$141,087	<\$400>	High
Sch. C – COGS	\$808,913	<\$6k>	High
Sch. C – 1099 reporting	\$80,900	<\$80,900>	High

**Probability**

Each item is analyzed to estimate the likelihood IRS may adjust an item based on your initial information.

**WHY YOUR RETURN WAS AUDITED.**

IRS Revenue Agent XXXXXXXX mailed you a notice on September 27, 2015 to examine your 2013 1040 individual income tax return. Based our review of your 2013 income tax return, we believe the audit was opened for the following reasons:

**a. 1099 REPORTING OBLIGATION**

Because you made payments to various businesses for services (i.e. labor, fabrication, outside services, etc.) you may have been required to file a 1099 to report those payments to IRS.

A 1099 is required when you made payments for various purposes including for services performed by independent contractors rent, interest on a business debt to someone, payments to attorneys, interest on a business debt.

You are not required to file a 1099 information return if:

- You are not engaged in a trade or business;
- You are engaged in a trade or business and the payment was made to another business that is incorporated, or the sum of all payments made to

**Tax analysis**

Our tax professionals provide authority to guide you on high-risk items on your return as well as general points that may be raised during your IRS examination.

**The Cause**

Tax returns are audited by IRS for many reasons. IRS uses a computer algorithm to identify returns to audit based on current and historical items reported. Your return is analyzed by our team of tax professionals to identify issues that may have triggered your audit.