

IRS AUDIT DEFENSE PLAYBOOK

Ross Tax Prep & Bookkeeping LLC

Business Name:	Ross Tax Prep & Bookkeeping LLC
EIN:	33-4891499
Location:	Killeen & Temple, Texas
Document Type:	Confidential Internal Use Only
Effective Date:	January 28, 2026
Classification:	CONFIDENTIAL - Attorney-Client Privileged

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1. PURPOSE & SCOPE

Objective: This playbook establishes centralized procedures for managing IRS notices, audit inquiries, and related compliance matters to minimize risk, protect client confidentiality, and ensure consistent, defensible responses.

Scope: This playbook applies to all staff members, contractors, and partners involved in tax preparation, audit defense, or IRS communication at Ross Tax Prep & Bookkeeping LLC.

Authority: This procedure is authorized under IRC §6001 (Records), Treasury Regulation §1.6001-1 (Records and their retention), and Circular 230 (Standards for tax practitioners).

2. CORE AUDIT DEFENSE PRINCIPLES

Principle	Description
Centralized Communication	All IRS communication is handled exclusively by the Audit Defense Team (Admin + CTO). No direct staff-to-IRS contact is permitted.
Written Responses Only	All IRS responses are provided in writing with documented delivery. Verbal responses are prohibited unless explicitly authorized by legal counsel.
No Admissions of Liability	Staff are trained to never admit fault, speculate about corrections, or volunteer additional information beyond what is directly requested.
24-72 Hour Buffer	No response is sent within 24 hours of receipt. This ensures review, legal analysis, and quality control. Responses are sent within 72 hours or deadline, whichever is sooner.

3. IRS NOTICE CLASSIFICATION & RESPONSE TIMELINE

All IRS notices must be immediately classified by the Audit Defense Team. Classification determines response timeline, escalation, and required documentation.

Classification	Examples	Response Deadline	Escalation
INFORMATION REQUEST	CP2000, Math verification, Routine inquiry	30 days from notice date	Manager review if > \$5K change
AUDIT NOTICE (Low Risk)	Correspondence audit, Form inquiry	30 days from notice date	CTO + Legal if > \$10K
AUDIT NOTICE (High Risk)	Office audit, Fieldwork notice, Criminal referral	15 days from notice date	IMMEDIATE: Legal counsel
PENALTY NOTICE	Accuracy-related, Negligence, Fraud penalty	30 days or as specified	IMMEDIATE: Legal counsel

4. NOTICE RECEIPT & LOGGING PROCEDURES

Step 1: Receipt & Initial Review (Same Day)

- Any staff member receiving an IRS notice must immediately notify the Admin
- Notice is logged in centralized Notice Tracking Spreadsheet with timestamp
- Notice is scanned and securely stored in shared drive

Step 2: Classification (Within 2 Hours)

- Admin classifies notice using Notice Classification Matrix (Section 3)
- Response deadline is calculated and entered into Notice Log
- If HIGH RISK or PENALTY NOTICE: CTO and legal counsel are notified within 2 hours
- Client is notified of notice receipt and planned response timeline

Step 3: Evidence Gathering (Within 24 Hours)

- Audit Defense Team retrieves engagement letter, tax return, and workpapers
- Review for completeness, accuracy, and discrepancies with IRS question
- Identify any missing documentation and request from client if needed
- All evidence is organized and indexed in Notice folder

Step 4: Response Preparation (Within 48-72 Hours)

- CTO prepares draft response using approved templates and scripts
- Response is reviewed for accuracy and consistency with prior positions
- Client is consulted on any changes to prior positions
- Legal counsel reviews if penalties or fraud allegations present
- Final response is approved by Admin/CTO before mailing

5. STAFFING & COMMUNICATION AUTHORIZATION MATRIX

Role	Authorization Level	Permitted Actions
Preparers	NONE	Must escalate any IRS communication to Admin.
Staff	LIMITED	May receive/acknowledge receipt. Must immediately escalate to Audit Defense Team.
CTO	FULL	Manages all aspects: receive, classify, respond, escalate, interface with legal counsel.
Legal Counsel	ADVISORY	Consults on penalty notices, criminal referrals, fraud allegations. Reviews responses.

6. EVIDENCE RETENTION & DOCUMENT MANAGEMENT

Retention Policy Summary: All tax records, workpapers, engagement letters, correspondence, and IRS acknowledgments must be retained for a minimum of **seven (7) years** from the later of: (a) tax return filing date, or (b) client engagement termination.

Document Type	Retention Period	Storage Location
Tax Returns & Forms	7 years	Secure server + encrypted backup
Workpapers & Schedules	7 years	Secure server + encrypted backup
Engagement Letters	7 years	Client file + CRM system
IRS Correspondence	7 years	Compliance folder + backup DB

7. APPROVED IRS COMMUNICATION SCRIPTS

Script #1: Notice Receipt Acknowledgment

"Thank you for contacting Ross Tax Prep & Bookkeeping LLC. All IRS correspondence and inquiries are handled by our compliance team. Please submit requests in writing to our office address."

Script #2: Standard Response Cover Letter

"On behalf of [CLIENT NAME], we hereby respond to your [NOTICE CODE] as follows: [INSERT RESPONSE / ATTACHMENTS]."

PROHIBITED PHRASES:

- "We made a mistake..." (admission of error)
- "The client didn't provide..." (shifting blame)
- "We weren't aware of..." (lack of diligence)
- "We assumed..." (speculation)
- Any verbal responses or admissions to IRS agents

8. ESCALATION THRESHOLDS & TRIGGERS

Trigger	Action	Timeline
Penalty > \$10,000	Notify legal counsel. Prepare penalty defense memo.	Within 2 hours
Criminal Language Referral	STOP all communications. Retain criminal tax attorney immediately.	IMMEDIATE
Fraud Allegation	Treat as criminal matter. Engage specialized tax attorney.	IMMEDIATE

9. STAFF TRAINING & COMPLIANCE

Required Training:

- All staff must complete IRS Audit Defense Training before handling client files
- Training covers: Notice classification, escalation procedures, approved scripts
- Annual refresher training required for all staff
- New staff must pass quiz (80% minimum) before unsupervised client access

Monitoring & Compliance:

- All IRS communications logged in centralized tracking system
- Monthly audit of Notice Log to verify proper classification
- Quarterly compliance review with all staff
- Any violation of these procedures results in disciplinary action

Confidentiality & Privilege:

All IRS notices, responses, and audit work are considered attorney work product. Staff are prohibited from discussing audit matters with anyone except authorized personnel (CTO, Admin, legal counsel).

10. POST-AUDIT REVIEW & REMEDIATION

Upon resolution of any IRS notice, the Audit Defense Team must conduct a comprehensive review to identify root causes.

Post-Audit Review Checklist:

- Verify IRS determination is fully satisfied
- Analyze root cause: Return position, inadequate documentation, preparer error, or client misstatement
- Assess exposure: Would this issue affect other prior-year returns
- Update procedures: If preparer error, update SOPs
- Update workpaper: Document conclusion and any changes accepted by IRS
- Client communication: Explain outcome and lessons learned
- Firm learning: Memorialize finding in quality control database

11. EMERGENCY CONTACT PROTOCOLS

In the event of a critical IRS matter, breach, or emergency, notify the following contacts in order:

Priority	Contact	Role	Method
1	CTO / Admin	Incident Commander	Phone + Email
2	CEO	Executive	Phone + Email
3	External Legal Counsel	Attorney	Direct dial (on file)

Do NOT discuss audit matters with anyone not listed above without explicit authorization from CTO.

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