

What is the period of limitations for an audit?

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The statute of limitations starts on the day a tax return was due or the day it was filed, whichever is later. So, if you file your personal tax return on March 1, the period will start April 15. If you file your tax return late, such as October 1, then the statute of limitations starts on October 1.

There are three general look-back periods-

3 Year Period: This is the typical time the IRS has to audit most tax returns. The IRS attempts to notify the taxpayer within 12 to 18 months of the due date or filing date, whichever is later. This is so the audit can be completed within the three-year window. If you do not fall into the other categories below, then the 3-Year Period is the default.

6 Year Period: If you understated your income by 25% or more, the statute of limitations is six years. For example, you file a tax return with \$100,000 as income but you forgot a K-1 with \$25,000 from an inheritance trust. The IRS can actually audit this tax return up to six years.

Unlimited Period: Don't fall into this category. If you filed a tax return with the intent to commit fraud then the statute of limitation is indefinite. This only applies to fraud, and not negligence. If you make a good faith effort in preparing and filing a tax return yet made a mistake, you have not committed fraud. But if under a routine audit of a previous tax return the auditor discovers fraud, now your whole tax history is open for review. Yuck.