

12 Tips for Preventing Tax Audits

A tax audit is an experience every sane businessperson strives to avoid. Unfortunately there's no way to guarantee the IRS won't pay you an unwelcome visit: The government's exact formula for choosing who gets audited remains a well-guarded secret.

Even if you can't be sure you'll avoid an auditor's attention, tax experts have identified some factors that may flag a second look. If you fall into one of the following categories, it pays to be extra careful when filling out your tax return and to keep the best possible records to document your business operations and expenses:

1. Self-employed people
2. Corporate returns reporting income of \$250,000 or more
3. Individuals who claim a home office deduction
4. Sole proprietors in businesses:
 - where income is mostly attained from tips, such as waiters and cab drivers
 - involving large amounts of cash, such as auto salespeople
 - involving a lot of travel, such as airline pilots and flight attendants
 - that are service oriented, such as lawyers and doctors
 - Recreational-type businesses that could be classified as hobbies
 - Businesses using subcontractors instead of employees
 - Returns with large deductions relative to one's income for charitable gifts, travel, meals and entertainment

Whether or not your business is more likely to be an IRS target, experts say you can still reduce your risk of an audit by:

1. Answering all questions on your tax return
2. Using exact numbers, not nice round numbers (use \$4,892.18, not \$5,000.00)
3. Double-checking your math for errors
4. Preparing your report neatly and accurately
5. Attaching explanations for any items that may appear questionable

If you do get audited, the burden of proof lies with you. You'll need to substantiate and account for all deposits, and you'll have to prove that all of your expenses — such as travel, meal and entertainment costs — were necessary for your business. Always keep logs of your business activities, including detailed dates and locations, exact amounts and descriptions for expenses, the names of the people with whom you did business, and the

topics you discussed. Also save applicable documents, such as receipts, bank statements and canceled checks.

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