

Afraid of Being Audited? Don't Be!

Are you preparing your 2014 taxes? Are you a small business or self-employed individual? Unfortunately the Internal Revenue Service audits these types of returns more than any other. These tax forms usually require a lot more information such as expenses and their categories and are therefore more complex.

Be aware that having an accountant to help you with your taxes will minimize your chances of being audited- but no one can guarantee that you will never be audited. All you can do is prepare for the chance that it may happen and have your books in order if it does.

What happens if you are audited by the IRS?

You will first receive a notice of an audit. It might look something like this:



You will want to make sure that you have all the documentation that they request such as receipts, invoices; basically anything that will support the claims you have made on your return. This is also an excellent time to call your accountant or tax advisor. There are different types of audits, and depending on which one your business is subject to you may want a tax professional on hand during the audit. The letter you receive will explain what type of audit you will be getting as there are three:

1. Correspondence audit: These are simple errors and corrected via through the IRS via the mail. In their notification to your business they will state the information they need corrected and usually

will only deal with small issues.

2. **Office audit:** The IRS will send a letter with a list of questions that they need answered and is conducted in their office. This will allow you to prepare all necessary documentation as well as your CPA to the audit.

3. **Field audit:** This audit is done in your location by the IRS. The agent that comes to your location will look at your entire return as well as documents supporting your return.

How can you minimize your chances of being audited?

1. Make sure you or your CPA reviews your taxes thoroughly prior to submission. This will minimize simple errors.

2. Be honest. While it may be difficult to shell out your hard earned profits, falsifying your return can be even worse as it can result in criminal and civil legal action.

3. Always keep personal and business records separate. This will ensure you are not mixing incomes and expenses.

4. Consider legal actions, like being incorporated instead of sole proprietor, as sole proprietors are more likely to be audited than corporations.

Additional red flags:

- Consecutive years of business loss
- High Expenses
- Home Office and motor vehicle expenses
- Large Charitable donations

You can navigate through the nerve wracking process of your business tax returns easily. Consider having a CPA on your side in order to minimize your chances of being audited! Not sure where to find a qualified candidate? Pacific Crest Group has the solution! Check out our services page and see which is right for you!