Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Mar. 28, 2017

Companies located near IRS offices are more likely to face an audit, according to a recent joint study by professors from the University of Kansas, Clemson University, University of Texas at Austin and Texas A&M University.

With IRS offices in most major metropolitan areas and across many states, this may be alarming news for those looking to avoid an audit – which likely includes every business in the country. Despite the sensational headline, the study only includes publicly traded companies in its research, leaving smaller and private companies in the dark as to why they could be a target for an IRS audit.

In truth, there is no foolproof equation to determine if your company will be audited in a given year. There are however, a number of ways businesses can decrease their likelihood of a tax audit without having to pack up and move to the wilderness. While deploying these 5 tactics does not guarantee that the IRS won't come knocking at your door, they are still useful, ethical practices that all businesses should adopt.

Without further ado, here are 5 ways that businesses can decrease their risk of a tax audit:

1. **Don't round numbers.**

Though perfectly round numbers can be very appealing in life, they are big red flags to the IRS when they appear in tax returns. Misreporting your income because you rounded down the number shows the IRS that you're not keeping accurate records and they'll come looking for more mistakes. Your best approach is to accurately report all numbers in your tax return, even if it takes a little longer or isn't aesthetically pleasing – for the IRS, where there's smoke there's sure to be fire...

2. **Don't claim hobby expenses as business losses.**

This may seem like a no-brainer, but you'd be surprised how many people report

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

While brokering deals on the golf course or in the banquette of a ritzy steakhouse may be a thing of the past, business entertainment is still an integral part of client relations and a major write-off opportunity for businesses at tax time. However, large or over-the-top meal and travel deductions can set off alarms for the IRS, especially if they are disproportionate to the type of business or its revenue. In order to adhere to the IRS's strict tax codes, entertainment expenses must be solely business-related and sufficient records must be kept that answer the who, what, when, where, and why, of the expense as it relates to your business.

4. **Don't claim a home office (unless you can prove it).**

With the rise of telecommuting and cloud computing, working from home is a comfortable reality for many employees or business owners who maintain a home office. Claiming the home office deduction on your tax return is not nearly as relaxed. To claim this deduction, a portion of your home must be exclusively used for business – not a guest room, part of your bedroom, a children's playroom or a TV room. If you're able to prove the exclusivity of your home office, then this is one of the more beneficial tax deductions to take. If not, it will end up being a waste of time and could bring unwanted IRS attention to your return.

5. **Use a CPA or professional tax preparer!**

Sure, it's a bit of self-promotion but consider this: it's a tax professional's job to be aware of the latest changes to tax laws, deduction guidelines and return requirements. Not only can a CPA prepare and file your return, they also have the experience to spot any inconsistencies that would put up red flags to the IRS if left unchanged. Tax preparers are there to help businesses understand the complex nature of tax codes and alleviate the stress of tax season and the anxiety of a potential audit, so be sure to seek their advice and expertise.

Tax season is stressful but that stress can quickly cede to panic in the face of an audit

Hello. It looks like you're using an ad blocker that may prevent our website from working properly. To receive the best experience possible, please make sure any blockers are switched off and refresh the page.

If you have any questions or need help you can email us

Accounting.

CPA Practice Advisor is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors.

© 2024 Firmworks, LLC. All rights reserved