

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

Internal Revenue Service. Before it's even opened, nervousness sets in.

Feb. 04, 2014

The letter lands in your business mailbox. The return address shows it's from the Internal Revenue Service. Before it's even opened, nervousness sets in.

It informs you that your business has been selected for an audit. But don't fear the worst, local tax professionals advise.

"An audit can be time-consuming and an inconvenience, but it's not the end of the world," said Dan Gerety, owner accounting firm Gerety & Associates. "Some things you just can't help."

According to IRS data, small businesses are three times more likely to be audited than people.

"The goal is to file a complete and accurate return with all of the information that the IRS is looking for," Gerety said. "If your company is dealing with a lot of losses, that could trigger a red flag with the IRS. But if you really are losing, then take those deductions and have the documentation to back it up."

There are a number of things business owners should keep in mind when preparing tax forms.

"You never want to raise any red flags out there," said Heather Grech, a CPA at Bradshaw, Smith & Co. "Report the numbers as they are. There are some audits that are simply random. But in some industries, the IRS looks for certain trends.

"An IRS audit isn't the most pleasant thing, but it can go smoother if you have your records correct and file your tax returns correctly," she added. "Remember, the key is

document, document, document.”

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

–Report all income. The government keeps close watch over whether self-employed business owners fully report income. The IRS is on alert for errors on Form K-1, used to report income from partnerships, S corporations and some trusts. Cash-based businesses are more likely to be scrutinized, so make sure accounting is tight for businesses such as restaurants.

–Be thorough. Most tax experts advise clients to wait for all income reports, investment documents, bank statements and other paperwork before beginning a return. Being realistic with reported income, deductions and credits can reduce the likelihood of an audit.

–Avoid payroll tax problems. Payroll taxes are one of the most important areas for small-business owners to focus on when filing a return. Failing to pay taxes on employees can lead to some of the biggest headaches.

–Be honest about business expenses. One of the biggest red flags that can trigger an audit is claiming false business expenses. Using money for personal reasons rather than legitimate business activities can be construed as a failure to report income on a tax return.

–Hire a good bookkeeper or accountant. Finding a good CPA to prepare your tax return is a small investment that can pay big dividends. Unless you are well versed in tax forms, itemized deductions and business expenses, leave it to a professional.

–E-filing helps. Using tax software can help a filer avoid red flags. Many programs even provide a risk assessment showing the likelihood of an audit. Electronically filed tax returns, first made available in 1986, now are commonplace. They also can reduce mistakes. The error rate for paper returns is 21 percent, according to the IRS, and 0.5 percent for electronic returns.

---

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