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5 Useful Tips to Help Avoid an Audit

1 Don't Be Sloppy

Check your math, use the correct forms and sign the forms. Sounds straightforward, but a few little errors here and there begin to raise a red flag overall. Before you file, make certain you claim the proper percentage of medical expenses, childcare, etc. Avoid raising any attention by declaring all your income. If you are preparing your own taxes, pull your last year's tax return and make sure that all 1099's from mutual funds, banks and other sources listed are included on your current return. Last note, pay as much attention on your state return as your federal.

2 Don't Claim Big Deductions Without Proof

Many audits will never become field audits if you can back up you numbers with proof. The goal is to avoid all contact with the IRS, so instead of holding on to your proof in case you get flagged, simply attach proof of any big tax deduction or credit with your return (medical bill, donation check, etc.)

3 Don't be a Bigger Target

You can't avoid your profession and many industries traditionally receive cash payments. If you are a cab driver, waiter/waitress, or in the gaming industry, you are already at risk of getting flagged. Keep detailed records and report all your income. Avoid the temptation to significantly under report your cash tips. If you accept tips in cash and credit and average 18% on credit card sales, but only report 10% on cash sales, it will raise a red flag.

4 Don't File Early (but DO File on Time!)

Use e-File to file at the last possible moment if you owe taxes. The reduced error rate in returns file with e-file could keep you flying under the radar. Some preparers recommend you file as late as possible. One of the reasons is that the April 15 flood of forms prevents them from scrutinizing as much as returns filed much earlier, say in early February.

5 Don't Overuse "Business" Deductions

If you declare yourself "Self-employed", you are a target. Why? Many deductions claimed are not in full compliance with the law. The IRS doesn't look fondly at people who write off their vehicle expense only to discover that "business" vehicle is away at college with your child.

It is important to report all income. Typically, if your expenses exceed more than two-thirds of your gross self-employment income, you will be targeted. We suggest you consider the following when preparing your Schedule C:

- Your lifestyle should not appear to exceed the amount of self-employment income you are reporting
- Don't deduct personal living expenses as business or home office expenses
- Don't write off automobile expenses for travel that was not business-related
- Be aware of claiming large business entertainment expenses

If realistic, consider incorporating. By filing a Schedule C, you are approximately 10 times more likely to be audited than if you were to incorporate your business and elect S Corporation status. If you need to remain as "self-employed", be compliant. Consult IRS Publication 587.

If avoiding unwanted attention from the IRS is your goal, don't file Form 5213. People who have turned hobbies into a business sometimes choose to file this form, "Election to Postpone Determination as to Whether the Presumption Applies that an Activity is Engaged in for Profit". The 5 audit-free years this form provides, usually guarantees an audit at the end of those 5 years. Instead, run your hobby as a business and follow the guidelines offered above for self-employed status.

Contact Us

Thankfully, our staff has helped thousands resolve many complicated tax issues, including threatening IRS audits. If you find yourself in over your head, contact us today and talk to us. You don't have to tackle the IRS alone. Our team of tax professionals will stand by your side.