

Business owners: When it comes to IRS audits, be prepared

If you recently filed your 2016 income tax return (rather than filing for an extension) you may now be wondering whether it's likely that your business could be audited by the IRS based on your filing. Here's what every business owner should know about the process.

Catching the IRS's eye

Many business audits occur randomly, but a variety of tax-return-related items are likely to raise red flags with the IRS and may lead to an audit. Here are a few examples:

- Significant inconsistencies between previous years' filings and your most current filing,
- Gross profit margin or expenses markedly different from those of other businesses in your industry, and
- Miscalculated or unusually high deductions.

An owner-employee salary that's inordinately higher or lower than those in similar companies in his or her location can also catch the IRS's eye, especially if the business is structured as a corporation.

Response measures

If you're selected for an audit, you'll be notified by letter. Generally, the IRS won't make initial contact by phone. But if there's no response to the letter, the agency may follow up with a call.

The good news is that many audits simply request that you mail in documentation to support certain deductions you've taken. Others may ask you to take receipts and other documents to a local IRS office. Only the most severe version, the field audit, requires meeting with one or more IRS auditors.

More good news: In no instance will the agency demand an immediate response. You'll be informed of the discrepancies in question and given time to prepare. To do so, you'll need to collect and organize all relevant income and expense records. If any records are missing, you'll have to reconstruct the information as accurately as possible based on other documentation.

If the IRS selects you for an audit, our firm can help you:

- Understand what the IRS is disputing (it's not always crystal clear),
- Gather the specific documents and information needed, and
- Respond to the auditor's inquiries in the most expedient and effective manner.

Don't let an IRS audit ruin your year — be it this year, next year or whenever that letter shows up in the mail. By taking a meticulous, proactive approach to how you track, document and file your company's tax-related information, you'll make an audit much less painful and even decrease the chances that one happens in the first place.

Please contact Ceschini, CPAs at (631) 474-9400 for more information about this topic and other tax and business developments – such as new IRS regulations and court decisions.