

## What did the green grape say to the red grape?

**"Breathe You Idiot, breathe!"**



It's like that with an IRS audit. Now that it is that time of year, as a business owner, you can feel confident that at some point along the way, your number will come up for an audit. It's not "If" you ever get audited, it is "When."

There is no way on Earth to bullet proof yourself for an audit because the IRS uses a 'point' system in calculating your tax returns. Once you reach a certain level of 'points,' in any area of your return you are audited and nothing can prevent that. Anybody who tells you different is lying. I shared office space for five years with a retired CPA - Who was an IRS Auditor for 11 years.

It was 1999, and I was in my friend, Keri's office, and she was on the phone to one of her clients talking about a bookkeeping issue that I knew the answer to. Once she got off the phone, I started asking her questions about her business. It turned out that with my job experience and education, I knew how to be a success at bookkeeping. Keri had a bookkeeping business for nearly 20 years.

Just before I got to Keri's house I had been in my boss's office listening to my boss rant about one of our employees who I was supposed to discipline for some asinine thing that ended up being less her fault than the lack of clear directions from our boss. The next week I gave my notice to quit and took the following six months to start my own bookkeeping business.

By the time I quit my regular 8-5, M-F job I was working over 100 hours a week to get my bookkeeping business started. The hours were murder, but the experience was irreplaceable. I never looked back - I wasn't going that way.

I have worked for companies across the USA and Vancouver BC. To date, none of my clients were involved in an audit, however, I have assisted several people through the audit process by referral from various accountants. These tips come from my experience and education, as well as the knowledge and experience of my former office partner, Jim Twedt, retired CPA and friend. I stay involved working in the bookkeeping industry and also began another business with my husband - Professional Internet Marketing. These tips will help anyone facing an audit. And BTW. . . it's OK to, "B R E A T H E," You will be just fine!





Here are Ten Tips on what you should and should not do if you are involved in an audit.

**1** – *DO NOT* bring your computer bookkeeping software file with you to the audit. Most auditors tell you what it is you are being audited on – specifically. Only bring that-specific-information with you. If you need additional information you can submit it afterward. Keep in mind that an IRS agent is there to look for additional tax items – NOT trying to help you with categories and deductions that you missed. DUH

**2** – *Print out transaction reports for accounts that are being questioned. Before you get to the audit, find out which of those accounts is being questioned. For instance, do you have high contributions expenses? High office supplies expenses? Go over those lists before you arrive at the IRS office and make any notes you need for explanations. This way you have the info. in an easy to understand list that explains your numbers.*



**3** – *Print out or make copies of any source documents to prove your expenses – canceled checks, receipts, invoices, bills. For instance if you have \$600.00 in postage and 12 canceled checks for \$50.00 each month then you'll want to get copies of those canceled checks to bring with you..*

**4** – *If you get a “Special” Agent for your IRS appointment you need to call a tax Attorney. The reason you want to do this is because “Special” IRS Tax Agents are the people who investigate criminal tax code violations. Even if you ARE innocent – Get a tax attorney for this audit. The most benign of things could have happened to place you in this agents case load, but the truth of the matter is that you really do not need to take a chance on saying a single thing that may implicate you for something that "may" or "may not" have been intentional. Misunderstandings rarely, if ever, work in your favor with Special Agents.*

**5** – *Loose Lips . . . Do not volunteer information, or claw at the table while eagerly raising your hand to add ‘helpful,’ information. Not only are you wasting the auditors time, but you are being irritating. Even if it seems innocent – just answer the question/s you are asked. Do not lie. Agents are looking for income that you forgot, or deductions that you overstated. The more you talk, the more you are likely to give away the farm – and all the other buildings on the acreage.*



## **1 It's A Tax Audit, Not A Shark Attack**

**6** – *An audit shouldn't reign terror in your heart, but if you used a tax person to prepare your taxes, then consider using them to represent you in an audit instead of going yourself. If you use this option you'll be able to stay at home and add backlinks to your web page instead of sitting at the IRS audit table in person.*

**7** – *Make sure that you understand EVERY thing on your return. You'll only be hurting yourself if your standard response to an IRS agent is, "I Don't Know How that number got there." Any rendition of this response is not acceptable.*

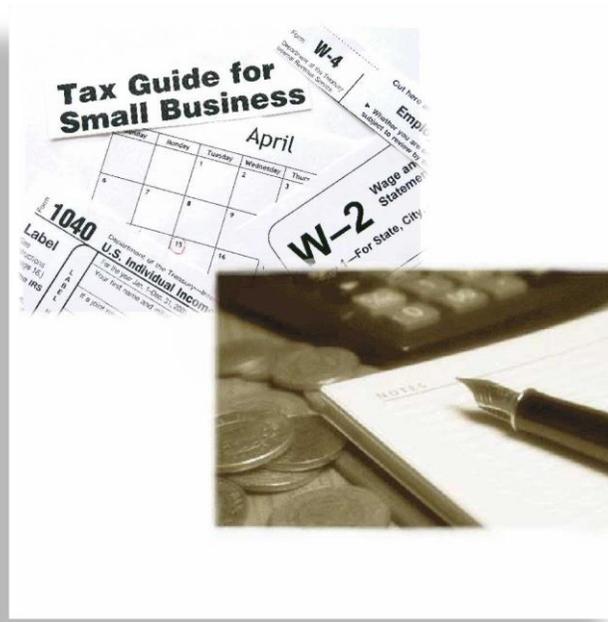
**8** – *Appreciate the fact that IRS agents are actually helpful and that it pays to be nice to them. Think of it this way, if you go into a cage with lion are you taking a steak with you and talking nice to the lion – Hmm? After all, it's really not tech support you're talking to from another country, it is the IRS representative.*

**9** - *Relax. Try not to worry. If you have been honest and careful then you have nothing to worry about. Maybe there will be a mistake on your tax paperwork and maybe you'll have to pay something extra. If you do have to pay additional taxes and it creates a hardship for you then explain that to the agent and ask them if they will work with you on payments. The majority of the time they will work with you. If that is not the case then you did not read # 8. I can't say this loud enough - Treat the IRS agent like a special human being with a brain. Their time is valuable and they are intelligent people. Yelling, cussing or a short temper on your part will make your audit horrid. Guaranteed.*



## **2 Not too Relaxed!**

**10** – *Do not lie. Do you understand what Perjury means? It is such an ugly word. You could go to jail and share a cell with a hairy guy with tattoos named 'Buster.' And, you could get to know 'Buster' well. Don't Lie.*



. . . OOOH, One last thing before you go -

- Stay focused
- Stay motivated
- Stay informed And
- Stay current

. . . on new internet marketing systems and tools. They are the wave of the future and you really don't want to get left behind with your brick and mortar when everything else is going viral!

After all it's really not all sour grapes, sometimes an auditor gives you credit for something you added 'wrong' . . . 'Nuff said.

If you need something visual to help you speak to an IRS agent, there are numerous free downloadable templates on budget preparation and expense itemization such as the one below from places such as your own template menu from your word processing program.

You can attach manila envelopes for your proof and documentation to each monthly sheet of expenses.

If you have a lot of documentation break it down by week or item, but **be consistent**. Inconsistencies in your systems are EXACTLY what an IRS agent would not be happy about. It's a time waster for them to have to try to figure out one (of many) alternating record keeping systems within your business - It's also a true **RED FLAG**. you may think you are being clever, but you are really only asking for 'it' - whatever 'it' becomes.

Audits can be terrifying, but the better prepared you are the less intimidated you'll feel.

**Sample Expense Report For Travel: Please note that this can be used for all your monthly expenses as long as you expand your columns for expenses. You'll find other examples in your Excel spreadsheet under "New," "Templates," "Budget."**

**Really, you can have something that is this simple:**

Line Item	Vendor	Date	Pmnt mthd	Amount	Comments
				\$	
Auto-Fuel	Chevron	2007	VISA	26.00	USA
				\$	
Auto-Fuel	Lake Grove Oil	2/27/2007	VISA	27.30	USA
				\$	
Auto-Fuel	Chevron	3/31/2007	VISA	17.80	USA
				\$	
Auto-Fuel	Auto Care Center	4/5/2007	VISA	41.70	USA
				\$	
Auto-Fuel	Chevron	4/22/2007	VISA	34.51	USA
				\$	
Auto-Fuel	Arco	5/24/2007	VISA	53.63	USA
				\$	
Auto-Fuel	Arco	5/29/2007	VISA	27.69	USA
				\$	
Auto-Fuel	Esso	5/29/2007	VISA	67.77	USA
				\$	
Auto-Fuel	Lake Grove Oil	8/15/2007	VISA	42.27	USA
				\$	
Auto-Fuel	Arco	8/18/2007	VISA	40.89	USA
				\$	
Auto-Fuel	Shell	8/19/2007	VISA	9.78	USA
				\$	
Auto-Fuel	USA Gas	8/19/2007	VISA	20.81	USA
				\$	
Auto-Fuel	USA Gas	9/11/2007	Cash	13.00	USA
				\$	
Auto-Fuel	Shell	9/20/2007	VISA	56.18	USA
				\$	
Auto-Fuel	USA Gas	9/27/2007	VISA	20.00	USA
				\$	
Auto-Fuel	Space-Age	9/28/2007	VISA	42.00	USA
				\$	
Auto-Fuel	Lake Grove Oil	10/4/2007	VISA	39.75	USA
				\$	
Auto-Fuel	Lake Grove Oil	10/8/2007	VISA	28.35	USA
				\$	
Auto-Fuel	Chevron	12/1/2007	cash	11.21	USA
				\$	
Auto-Fuel	Chevron	12/22/2007	VISA	7.73	USA
				\$	
Auto-Fuel	Lake Grove Oil	12/30/2007	VISA	37.10	USA
				\$	
	<b>TOTAL</b>			<b>665.47</b>	

## For Larger Businesses Here Is A More Detailed Approach

### -- The DREADED IRS Audit Letter --



If you've been selected for an IRS field audit, you'll be notified through a letter from an IRS agent requesting a meeting to review your company's tax records for a particular year. This letter is an important document containing valuable information that should not be ignored. It will provide a date for the field audit, as well as explanations about your legal rights during a tax audit. The letter will include audit preparation instructions and a telephone number to reschedule the audit, if necessary.

The audit letter will also include a list of documents that you'll need to provide during the field audit. Some of the documents you may be asked to provide are:

- *Tax returns for the prior and subsequent years of the year under audit*
- *Financial statements for the year under audit*
- *Depreciation schedules*
- *Payroll tax data*



## -- Creating An Audit Team --



If you receive a field audit notification, you should immediately establish a team to prepare for the audit.

In addition to collecting the requested documents for the audit, your team should review company tax records to assess tax compliance issues.

If you plan to handle the audit in-house, decide who on your audit team will serve as the primary contact person for the IRS agent.

If you use an outside accountant to prepare your company's tax records, you may want to ask that person to act as the contact person for them and also to represent you during the field audit.

They can answer questions about your business, its financial practices, and the preparation of the tax returns.

You may want to include your corporate attorney on your audit team.

Your attorney will protect your interests and ensure that you provide only the information required – Giving too much information Could lead to a broader investigation.

Your attorney would also know when it is appropriate to ask for more time to research an issue or an area of concern.

The audit notification letter might not detail the areas of your business that will be under review.

You may find it helpful if your audit team researches the questions that IRS agents typically ask during a field audit.

Helpful resources for this information include the IRS Audit Technique Guides, found in the business section of the IRS web site ([www.irs.gov](http://www.irs.gov)).

These guides, sorted by business type, help IRS auditors with examination techniques, common and unique industry issues, business practices, and industry terminology.

## -- Field Audit --

The field audit may last from one day to a week, depending on the size of your business, the industry type, and the condition and complexity of your financial records. During a typical field audit, you can expect the IRS auditor to perform the following tasks:

- **Question employees** Be prepared for the auditor to question key employees about the operations of your company, including products, processes, accounting procedures, management structure, and internal controls.

For example, the chief financial officer or accounting manager may be asked to explain the setup of your company's general ledger, while a production manager may be asked to describe the company's product line or production process.

If your employees are asked questions to which they don't have answers, encourage them to ask the auditor for some time to find information.

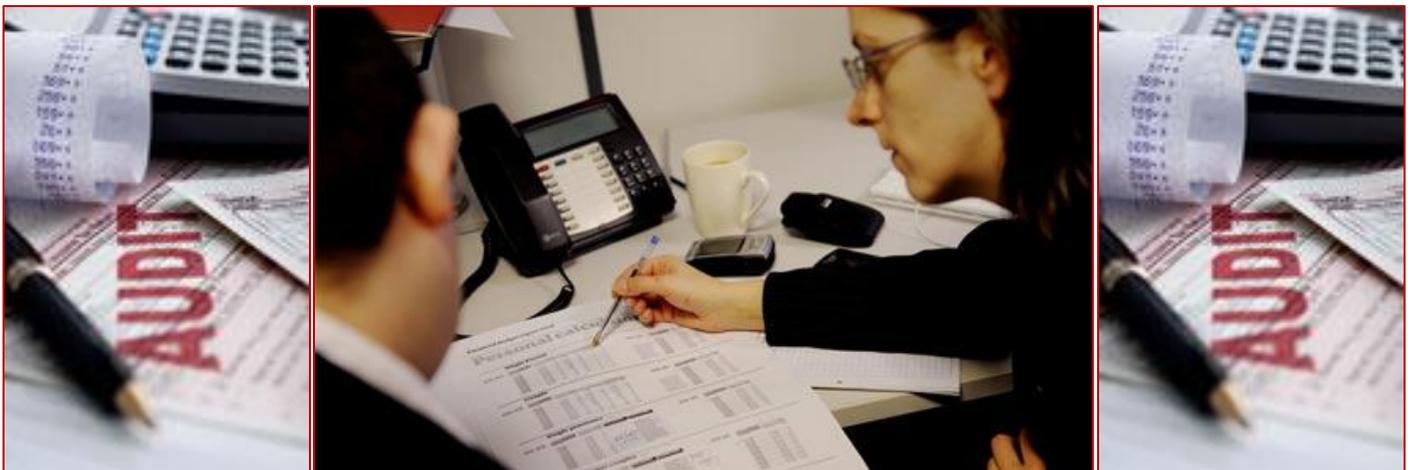
It's better to request more time than to appear as if you don't have the requested information or are concealing information.

- **Review financial records** Field auditors are required to survey the preceding and subsequent years' tax returns for the year under audit, confirming whether you treated similar items consistently over the years. If they discover inconsistencies, they may choose to audit (not just survey) those other years' tax returns.

Expect to verify any expenses that seem significant in relation to the size of your business, such as payments to independent contractors, commissions, or travel and entertainment expenses.

- **Tour business facilities** A tour of your business facilities will help the auditor corroborate the information obtained during financial reviews and employee interviews.

For example, the auditor may want to observe the size of your operation, labor force, and physical facilities to understand your overhead allocations. He or she may also want to inspect your finished goods or raw materials.



## -- Closing Conference --

An IRS auditor might present conclusions from a field audit at a closing conference. If the auditor identifies proposed changes to your tax return, you'll be presented with a report explaining the changes and any penalties and interests that are due. The report will also include research from the Internal Revenue Code and other legal resources that support the proposed changes.

You may feel pressured to accept the auditor's findings, but you shouldn't sign anything that you either don't understand or don't think is fair or correct. It's a smart idea to request from the auditor more time to review the proposed changes with your accountant and attorney. If necessary, set up another meeting with the auditor so that your audit team can have time to research or prepare calculations about any discrepancies or questionable issues.

Don't be discouraged if you are unable to reach an agreement with the IRS auditor during a closing conference. Remember that tax law is complicated and subject to interpretation. Explain that your company may want to enforce its right to appeal the IRS decision and end the meeting amicably.



**3 It's Almost Over-Remember To Be NICE!**



## -- Appealing An Audit Decision --

If you feel an appeal is necessary, work with your tax accountant or attorney to determine the best approach. If you choose to appeal, your case will likely go to the appeals division of the IRS. Unlike the IRS auditor who performed your field audit, the appeals officer will consider the time and expense it will require for the IRS to try your case in court. Because of this, about 90% of all cases referred to the appeals division are settled.

If you disagree with the decision of the appeals officer after your appeal has been decided, don't give up – you may appeal to the U.S. Tax Court. Or, as an alternative, you can pay the amount of tax due and file a suit for refund with either the U.S. District Court or the U.S. Claims Court.

## -- Winning Your Audit --

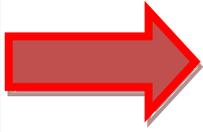
Follow these commonsense tips to ensure that your field audit is settled to your satisfaction:

- **Be prepared** Make sure that your tax records are organized and complete for the field audit. More importantly, make sure that the person you designate as the primary contact person for the IRS auditor fully understands the tax compliance issues of your company.
- **Keep track of all correspondence** Set up tracking systems for all audit-related communications and document requests, particularly the transfer of all original documents.
- **Forge a working partnership** Establish a working relationship with the auditor from the first meeting. Define the agenda of the field audit, which part of your company's facilities will be used during the audit, and how many employees will need to participate in the audit. Develop a schedule so that the agent and your audit team understand the time frame for additional document requests.
- **Treat the auditor with respect and cordiality** Even if you are angered by or frustrated with the field audit, treat the auditor as you would a respected client or business partner. Bite your tongue rather than complain or whine. If you disagree with the auditor, state your objection once – no need to raise the ire of an auditor by triggering a debate or, worse, an argument.
- **Do Not Babble** Discuss only the sections of your tax return in question and *nothing more*. Providing more details than requested could lead to a broader investigation.

An IRS field audit can be time-consuming and scary. However, your audit will run smoothly if you create a competent audit team, approach the field audit with the same confidence and professionalism that you would devote to a meeting with an important client, and remember that you'll have the opportunity to appeal any decisions made by the auditor.

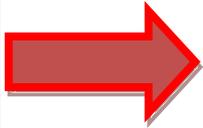
## Nine Ways to Avoid Problems at Tax Time

The IRS offers these nine tips for ways to avoid the last-minute rush for doing your taxes:



1. **Don't Procrastinate.** Resist the temptation to put off your taxes until the last minute. Your haste to meet the filing deadline may cause you to overlook potential sources of tax savings and will likely increase your risk of making an error.

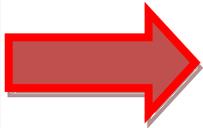
You also risk a "PIA" fee from your accountant and bookkeeper – They will never tell you this, but it's on your invoice! And, really, can you blame them - Time is money - Their time, your money. Respect that.



2. **Organize Your Tax Records.** Tax preparation time can be significantly reduced if you develop a system for organizing your records and receipts.

Start with the income, deduction or tax credit items that were on last year's return.

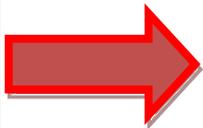
Don't expect 24 hour turnaround service on your records, either. It took you a year to mess things up, it will take some time to input.



3. **Visit the IRS Online.** Millions of taxpayers visited the IRS Web site last year, downloading nearly 600 million forms, publications and a variety of topic-oriented tax information.

Anyone with Internet access can find tax law information and answers to frequently asked tax questions.

I have found that the IRS is operating 'now-a-days' in 'User-Friendly' mode (they are taking more time to explain complicated information to people-keep in mind they are human, though and that they will respond to you "as you respond to them").



4. **Take Advantage of Free Assistance.** The IRS offers recorded messages on about 150 tax topics through its toll-free TeleTax service at 1-800-829-4477.

It also offers federal tax forms and publications at 1-800-TAX-FORM (1-800-829-3676). Some libraries, post offices, banks, grocery stores, copy centers and office supply stores carry the most widely requested forms and instructions.

Libraries may also have reference sets of IRS publications.

The IRS also staffs a tax Help Line for Individuals at 1-800-829-1040.

Help for small businesses, corporations, partnerships and trusts which need information or assistance preparing business returns is available at the Business and Specialty Tax Line at 1-800-829-4933.

Both lines are staffed from 7 a.m. to 10 p.m. weekdays.

In addition, the Help Line for Individuals is available from 10 a.m. to 3 p.m. on Saturdays through April.

All times are local, except in Alaska and Hawaii, which should use Pacific Time.

Hearing-impaired individuals with access to TTY/TDD equipment may call 1-800-829-4059 to ask questions or to order forms and publications.

In my travels of going back and forth from Canada to the USA, it is my experience that the tax laws and chart of accounts are much the same so what works in one also works in another.

You'll want to verify this, of course, with your Accountant or legal professional, depending on your business setup and circumstances.

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5. **Use IRS Taxpayer Assistance Centers and Volunteer Programs.** Free tax help is available at IRS offices nationwide.

Also, check your newspaper or local IRS office to find locations for Volunteer Income Tax Assistance or Tax Counseling for the Elderly sites.

To obtain the location, dates, and hours of the VITA or TCE volunteer site closest to you, call the IRS toll-free Tax Help Line for Individuals at 1-800-829-1040.

Check this Web site to find the local IRS office nearest you. They really are there to help YOU!

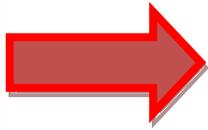
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6. Have your accountant **Double-Check Your Math and Data Entries.** Review your return for possible math errors and make sure you have provided the names and correct (and legibly written) social security or other identification numbers for yourself, your spouse and your dependents.

Especially important if you need to count every penny, plus it could be the saving factor of whether or not you are flagged for an audit or not.

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7. **Have Your Refund Deposited Directly to Your Bank Account.** Another way to speed up your refund and reduce the chance of theft is to have the amount deposited directly to your bank account.

Check the tax instructions for details on entering the routing and account numbers on your tax return. Make sure the numbers you enter are correct.

Wrong numbers can cause your refund to be misdirected or delayed. So, take a second look at everything – one last time – before you sign and send!



8. **Don't Panic if You Can't Pay.** If you can't immediately pay the taxes you owe, consider some stress-reducing alternatives.

You can apply for an IRS installment agreement, suggesting your own monthly payment amount and due date, and getting a reduced late payment penalty rate.

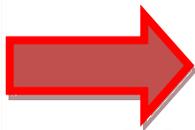
You also have various options for charging your balance on a credit card, either as part of an electronic return or directly through a processing agent, either by phone or online.

Once again, they want to help YOU. There are a variety of options that won't have you running to "Guido" for a loan!

It is in everyone's best interests that you get the help you need.

Electronic filers with a balance due can file early and authorize the government's financial agent to take the money directly from their checking or savings account on the April 15 due date, with no fee.

Note that if you file your tax return or a request for a filing extension on time, even if you can't pay, you avoid potential late filing penalties.



9. Have Your Accountant **Request an Extension of Time to File — But Pay on Time.**

If the clock runs out, you can get an automatic six-month extension of time to file, to October 15. An extension of time to file does not give you an extension of time to pay, however.

You can call 1-888-796-1074, e-file a Form 4868, Application for Automatic Extension of Time to File, that is included in most tax preparation software, or send a paper Form 4868 to the IRS to request the extension.

You will need the adjusted gross income and total tax amounts from last year's return if you request the extension by computer or phone.

You may also get an extension by charging your expected balance on a credit card, and then you won't have to file the form.

Contact Official Payments Corporation or Link2Gov Corporation.

There is no IRS fee for credit card payments, but the processors charge a convenience fee.

This 5 minute step can save you – **LITERALLY** – thousands of dollars and reduce your stress levels tons!



**Most Important:**

**Be sure to keep a copy on file of your tax and tax payment and send it certified mail.**

**This is the kind of document that you may need proof of sending.**

**Trust me, they won't just take your word for it that the document was sent in the mail. They lose things - It's a "Human thing."**

**If you have to provide a copy to the IRS at a later date, it will be your responsibility to do that -- 100%.**

***4 OK, NOW It's OVER!***

