

Avoiding the IRS Audit Flags
Authors and the IRS
by Carol Topp, CPA
author of *Business Tips and Taxes for Writers*
TaxesForWriters.com

I. Types of Audits

- A. Correspondence by letter
- B. Office. You go to IRS office
- C. Field. IRS visits your business

II. IRS Audit Guides at IRS.gov

Cash intensive business (including electronic money/digital cash), day care, constructions, farmers, ministers, hobbyists

III. Income flags

- A. No profit 3 or 5 years **could be** reclassified as a hobby
 - So look and act like a business! (expertise, records, professional help, advertise, past success)
- B. S corporation without reasonable salary
- C. Failure to report all income (esp. Form 1099MISC)

IV. Expenses flags

- A. Business Use of Home
 - Regular and Exclusive use
 - Reasonable. Ex: not the landscaping, etc.
- B. Excessive travel or other expenses
 - only 50% of meals deductible
 - rare to have 100% business use of cars, cells, etc.
 - No double-dipping with standard mileage rate and actual maintenance, insurance, etc.
- C. Hiring family. Must really work for the business.
- D. Mixing business and personal expenses
 - Don't pay for personal expenses with business debit/credit card

V. Sloppy bookkeeping and internal controls

- A. Questions from IRS audit guide that the IRS will ask you:
 - Who keeps the books? How did they learn record keeping?
 - What bank accounts are maintained?
 - Do you (the business owner) deposit everything? Who deposits?
 - How do you get cash to spend?
 - Personal withdrawals – how are they handled?
 - How do you record expenses?

VI. Wrong forms

- A. Royalties for author on Sch C not E
- B. Charity donations on Sch C instead of Sch A (Item Ded)
- C. Get self-prepared return reviewed by CPA in 1st year of business and at least every 3 years after.