TAP INTO MAR

Plan Your Tax Strategy

By Scott Taylor, CPA, Shareholder with PBTK

Your heart is pounding and you can't breathe. Is it a heart attack or have you just received an IRS notice in the mail? The symptoms can often be the same! For many, preparing their taxes is their own version of March Madness, though the basketball version can be stressful too! Few items strike fear into the heart of a business owner quite like the words "IRS audit" or even the receipt of an unexpected IRS notice. Around our accounting firm, I endearingly call these notices "love notes from the IRS."

Companies can't always prevent an audit, but they can take steps to reduce IRS scrutiny or inquiries. Taxpayers can always be prepared to defend the business if they receive a dreaded letter of any kind. In light of college basketball season, take a team approach to avoid receiving one of these audit letters. Work with your CPA (your coach) to identify common audit triggers that may show up on your own personal or business tax return.

STRONG OFFENSE IS BEST

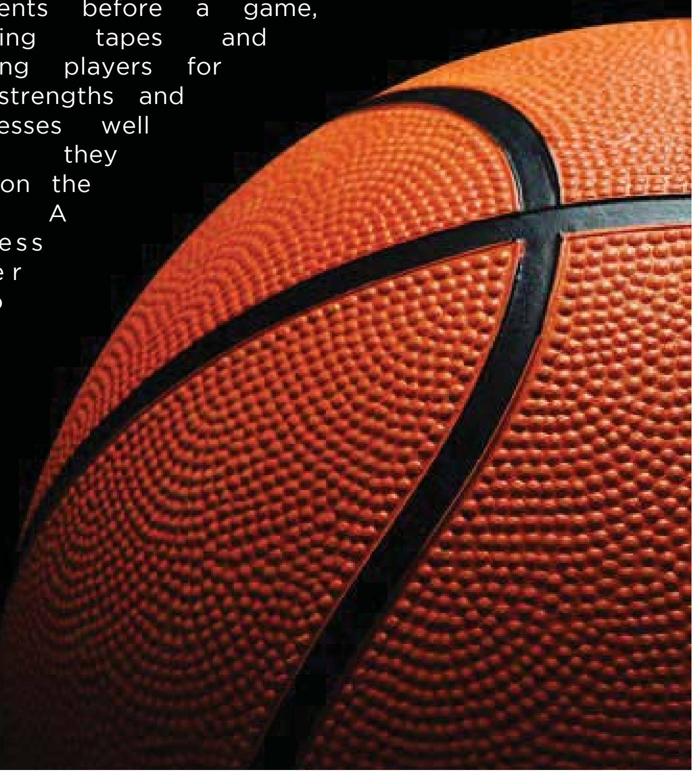
You can't win without putting the ball in the hoop – so an offensive strategy is key to staying ahead in the tax game. The IRS is more likely to scrutinize certain types of businesses, such as those that are primarily cash-based. You're probably not going to change your industry, so focus on things you can control, namely your tax returns and detailed reporting habits. One play option is to minimize turnovers or errors by keeping meticulous records and working with a reputable tax advisor. Certain "shots" on a tax return items are likely to raise red flags with the IRS. These include:

- Significant inconsistencies with previous years' filings (don't make the same mistaken bad "shot")
- Understated or overstated income (yes, sometimes too many "shots" or unrealistic income to increase tax credits, is the source of notice)
- Errors related to employee compensation (such as S-Corporation too low salary or none or independent contractors)
- Miscalculated, estimated, or unusually high deductions
- Expense and gross profit margin disparities compared with other businesses in your industry (just an inconsistent coach or weak game plan)

It's critical to have supporting material ready at a moment's notice. The tax code generally requires businesses to maintain detailed tax-related records for at least three years from the due date of the return — the normal statute of limitations for an IRS adjustment, unless items are substantially misstated.

KNOW THE PLAY BOOK

Good athletes research their opponents before a game, reviewing tapes and watching players for their strengths and weaknesses well before they meet on the court. A business owner can do



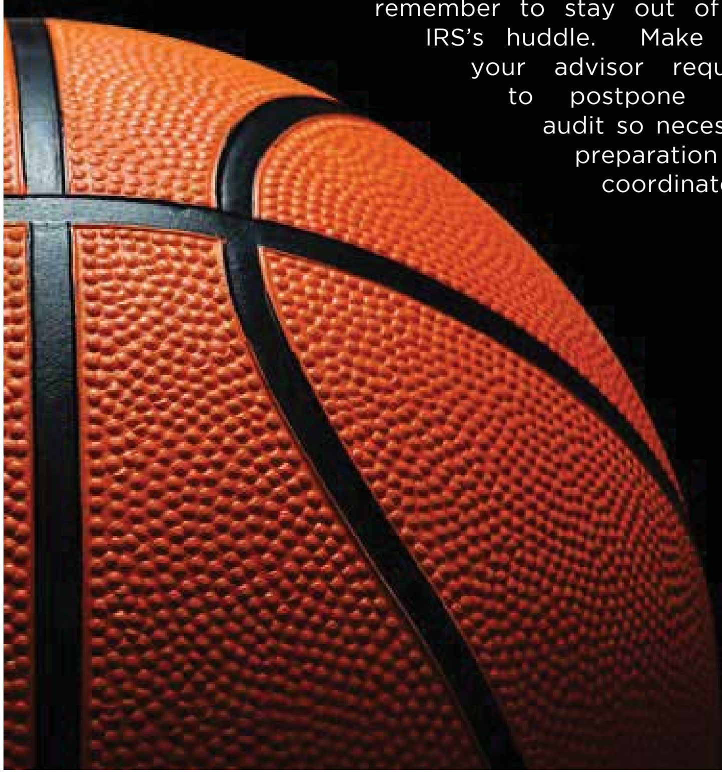
RCH MADNESS:
to Avoid an IRS Audit

the same thing with the IRS – research their tendencies and triggers for initiating an IRS audit. Through years of experience and data, it is possible to identify these IRS audit triggers and plan for them. Common pitfalls in business owners' tax returns are:

- Home office deductions – this may be the most common area that business owners try to include questionable deductions
- Estimates instead of specific dollar amounts
- Rounded numbers instead of exact amounts
- Inaccurate reporting
- Missed legal changes such as not understanding new and current laws

BUT HAVE A VIGOROUS DEFENSE

If, despite your best efforts to file accurate returns, you receive an audit letter, don't panic. Contact your tax advisor (coach) immediately with an executed Power of Attorney and remember to stay out of the IRS's huddle. Make sure your advisor requests to postpone your audit so necessary preparation is coordinated.



Follow instructions from the advisor by assembling only necessary documents that are specifically directed. Generally, the IRS provides a detailed list of intended review and scope. Only the documentation required to make your case should ever be provided. If difficult tax issues, conflict or fraud allegations arise, let your tax advisor take over the game plan.

SETTLE THE SCORE

Even if errors are proven and were unintentional, it's likely that some settlement payment will be required. These circumstances require your advisor to creatively and aggressively negotiate for the taxpayer to avoid unnecessary penalties. Be prepared for this day, since any financial damage can be minimized with proper coaching. If business owners and individuals are prepared, that dreaded "love note" will not cause a follow-up appointment with their physician.

Scott Taylor, CPA is a Shareholder with Piercy Bowler Taylor & Kern, the largest locally-owned accounting firm in Las Vegas, now with offices in Reno and Salt Lake City. He has never seen a three-pointer that he didn't want to take (plus he's always up for a good jump shot). He doesn't get to play basketball as much as he'd like, but you can still find him supporting the sport. Although he is a BYU grad, he cheers for his hometown Runnin' Rebels and has had season tickets for the past 40 plus years. Contact Scott at staylor@pbtk.com with any questions about tax planning or preparation strategies.