



## Ask SCORE for Business Advice

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### **Audits are on the Increase by Tina Dettman-Bielefeldt**

It's tax time, and small businesses have more to worry about than getting their tax returns filed. Over the last five years, the Internal Revenue Service has increased the hours it spends auditing small businesses.

According to a new report from Syracuse University's Transactional Records Access Clearinghouse (TRAC), audits of large corporations, those with \$250 million or more in assets, have dropped by 33%. For small-business owners, those with less than \$10 million in assets, the rate has increased by 30%. These numbers show a trend toward closer scrutiny of small businesses.

Because small businesses usually take in at least some cash, the IRS looks for proper documentation and procedures that record all income. It is a serious issue. According to IRS estimates, underpayment of taxes by the self-employed is around \$150 billion per year.

Groups under inspection include plumbers, electricians and other tradesmen; artists and musicians; freelancers, and those in other service-related industries. If there is an audit, the IRS can check bank records and deposits to detect unclaimed income.

Closing the so-called "Tax Gap" has become a priority for the IRS. Working closely with the legislature, there are a series of new proposals in this year's federal budget to help with enforcement. At [www.irs.gov](http://www.irs.gov), there is a 35-page publication entitled, "Update on Reducing the Federal Tax Gap and Improving Voluntary Compliance."

"While aggressive enforcement activity can also help to narrow the tax gap, it is important to recognize that increased enforcement efforts require certain trade-offs," the publication states. "The Administration is committed to working closely with Congress to strike an appropriate balance to maximize revenue collection without imposing unreasonable compliance and enforcement burdens on the vast majority of individuals and businesses that fully and willingly pay what they owe."

In other words, audits are on the increase, but the government doesn't want to burden businesses that are in compliance. If your business should get selected, they're merely trying to send a message to the non-compliant. So, if more businesses are being audited, what can you do to be prepared? The best answer is found on the IRS website.

Not only does the website have loads of tax information, there is also a section that allows you to see exactly what the auditors are looking for. These Audit Techniques Guides (ATGs) contain examination information for a variety of business types. Intended to help auditors do a thorough job, they also aid businesses in knowing what auditors will review.

For example, the Construction Industry ATG has eleven detailed chapters and appendixes that cover everything from accounting methods to common tax errors. There are a wide variety of guides, but even if there isn't a specific guide for your industry, it is useful to review one for a similar industry to learn what the IRS expects.

This is your best ammunition. Knowing what the IRS is looking for and using recommended accounting methods is the best way to keep them from knocking on your door. And, if they show up anyway, you'll be prepared.

If you'd like to learn more, contact the Green Bay Chapter of SCORE. Visit [www.greenbayscore.org](http://www.greenbayscore.org) or call Cindy Gokey at 920-496-8930 for information.

[Tina Dettman-Bielefeldt](#) is co-owner of DB Commercial Real Estate in Green Bay and Assistant District Director for SCORE, Wisconsin.