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RECORDKEEPING ISSUES IN CASE OF AUDIT OR REVIEW

There are some sensitive areas where care must be taken in reporting your business income and expenses. The following list will give an overview of entries which have the potential of being mishandled and which could create problems, especially in review or audit-type situations.

Gross income

Must be verifiable from bank statements. Any deposit not income, i.e. a loan or refund, must be clearly identified and documented. The gross should reconcile with any appropriate sales tax returns. Discrepancies with deposits should be explained and proven.

Insurance

Some insurance policies are deductible and others are not. It is possible for some insurance to be partially deductible. Identify policy payments by coverage as well as dollar amount.

Shareholder loans

Loans to shareholders, especially majority stockholders are red flags for the IRS. In order to be proper, each loan must be carefully documented as to term, rate of interest, and the ability of the shareholder to repay. These are three prime considerations (but not the only ones).

Vehicle use/personal use

When a car's use is divided between personal and business use, extra care is required to keep a detailed record of mileage for each. Expenses and depreciation can then be pro-rated properly for the allowable business use deduction.

1099's, W-4's, W-9's, I-9's

The **1099-MISC** form is given to sub-contractors and other individuals who have been paid over \$600 during the year. There are stiff penalties for paying an individual as a subcontractor, who is really an employee.

The **W-4** is required to be filled out by all employees detailing their allowances. It is kept on file by the employer.

The **W-9** is a request by the payor of the payee for the social security number or other tax identification number and whether or not that payee is subject to backup withholding provisions.

The **I-9** is a form required to be filled out by the employee and employer in order to verify employee eligibility status.

Travel & Entertainment

Federal Rules allow for the deductibility of only 50% of your food, and entertainment costs; they must be detailed by date, place, with whom, and business purpose. Travel expense may be fully deductible, but it must be substantiated as to cost and business purpose.



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Minutes of Meetings

All domestic corporations are required to have at least one meeting a year and the minutes of that meeting formally recorded.

Personal expenditures paid by your corporation

In a closely held corporation, it is often times easy to have the corporation pay the tab for some personal bills. Generally speaking these expenditures become constructive dividends to you, thereby not deductible to the corporation.

Bills of sale for all equipment

The purchase and sale of equipment requires documentation detailing description, date, and amount of the transaction.

Inventory

Whether you are on an annual or fiscal year, a detailed inventory is required at the end of the year. List your inventory by item number, description, quantity, and cost method you are using.

The above-mentioned items must be reconciled to your business tax return. This may seem like a lot of extra effort, but failure to have this documentation can lead to possible loss of the tax deduction and extra taxes, penalties and interest charged to you.