

## **CHECKLIST: What to Bring to Your Attorney When Being Audited By the IRS**

Being audited by the Internal Revenue Service (IRS) can be a serious problem for a business. It usually requires some expert assistance, by an accountant, an attorney, or both. When you learn that your business is going to be audited, begin collecting documents to show your professional advisors and the auditor. Remember, you will probably be showing your attorney and accountant much more than you will show the auditor! Below is a checklist of the documents you will need.

\_\_\_\_\_ **Tax Returns (from at least the past three years).**

\_\_\_\_\_ **Bank Statements, Canceled Checks, and Receipts.** Provide both personal and business bank records from all your accounts. Make a habit of retaining business-related canceled checks, invoices, and sales slips. When paying cash for expenses, keep the paperwork (handwritten notes, receipts, or petty cash vouchers) showing the payments.

\_\_\_\_\_ **Ledger Books.** Although it is wise to do so, the tax code doesn't require small businesses to keep a formal set of books. Your only "ledger books" may be the business's check book and cash register tapes. One good reason to keep detailed formal documentation, though, is that if a business cannot produce adequate records, the auditor may estimate its income and expenses and impose a separate penalty for failing to keep records. If you do keep formal books on paper or on your computer, you will need to provide them.

\_\_\_\_\_ **Appointment Books, Logs, and Diaries.** Service businesses often track activities and expenses through appointment books, logs, calendars, and diaries. These entries can help justify expenses.

√ Businesses must also keep records for certain equipment used for both business and personal purposes (for example, vehicles, cellular phones, and computers kept at home), called "listed property." The usage of these items must be logged. If you have no usage records, they may be reconstructed using your memory or other logs and references.

√ A good way to keep auto records, if deducting mileage expenses, is to log dates, mileage, and location of business travel. In the alternative, you can keep gas and repair receipts if deducting actual operating costs.

- √ All travel and entertainment expenses must be recorded in detail. The logs should state the specific business purpose for all travel and entertainment costs, and be accompanied by a receipt.
- √ Expenses for renting or buying property can be supported by providing a copy of the lease or purchase contract. These records will also establish a tax basis for the property if your business is claiming depreciation expenses.

\_\_\_\_\_ **Any Payroll Records From Outside Payroll Companies.**