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10 GENERAL ISSUES COVERED AT IRS OFFICE AUDITS

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There are three basic types of IRS audits: correspondence, office, and field examinations. Correspondence audits are generally used for specific questions that can easily be verified. Office audits are conducted at the various offices of the IRS and tend to be structured. Field audits are geared toward businesses whose books and records have to be verified. Let's discuss **10 issues that generally come up during office audits:**

1. **Dependency Exemptions** – Are you entitled to dependents that you claimed? Do they have social security or individual tax identification numbers? Did you provide more than half of their support?
 2. **Head of Household** – Are you entitled to claim this status? Did you provide more than half the support of a child if you are married (but living apart) or of another dependent if you are unmarried? If you are divorced, was the final decree issued by the end of that year?
 3. **Unreported Income** – Did you report all W2s and 1099s? Do you have other income from any sources that were not reported?
 4. **Itemized Deductions** – Can you support mortgages, property taxes, contributions, and other employment-related deductions. Do you have checks and thank you letters to support, say, donations of \$4,000 when the national average is only \$1,000? 😊
 5. **Miscellaneous Deductions** – Did you claim excessive employee business expenses? Does it make sense, for example, for you to spend \$10,000 of auto expenses, dues, subscriptions, uniforms and small tools when your income from such employment grossed you \$18,000? Of course not. But when you get too aggressive on deducting phantom expenses, you are inviting an audit.
 6. **Bad Debts** – Are you entitled to a bad debt deduction for a worthless receivable? Is the borrower related or a close friend (or used to)? Is the gift more of a loan? Can you produce a cancelled check or promissory note? Did you take enough effort to collect? Were those steps oral or written? (Write at least three letters – a nice first letter, a demanding second letter, and a warning third letter). Use certified mail especially if your ex-close friend has moved out or simply vanished with no forwarding address. That letter stamped “return to sender” could come handy.
 7. **Income from Business or Profession** – Did you report all your collections? (I have represented clients who hid some of their income by depositing collections to their personal accounts that are routinely verified by auditors!) Did you deduct 100% of a car that is used mostly for commuting (home to office and office to home)? Did you deduct personal as business expenses?
 8. **Rental Income** – Did you report all rentals from tenants? Is any of the tenants your relative? If so, did you charge the going rate for the rental unit?
 9. **Partnerships, LLCs and S Corporations** – Did you properly report K-1s from pass-through entities?
 10. **Capital Expenditures** – Did you deduct as current expenses items that should have been capitalized and depreciated over a period of time?
- TIP:** Auditors can raise additional questions. It is therefore advantageous for you and your rep to work with the agent in a respectful and professional manner to contain the issues (rather than fight, antagonize the auditor, and expand the issues beyond the pre-selected items). Good luck.