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## HOW TO AVOID IRS AUDITS IN 2011 (PART 3 - DEDUCTIONS)

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There's no substitute for conservatism when it comes to avoiding audits. Be aggressive and you increase your risk of IRS scrutiny. Play the odds and you'll attract an audit. The question then is - is it worth the risk? No, it's not. Saving a few dollars compared to what could be a disastrous experience of dealing with the IRS and resulting tax plus penalties and interest for prior and subsequent years is certainly not a rewarding proposition. This is the last of three articles on audits. The first two dealt with general guidelines and income. This one deals with **deductions**.

1. The first rule is to submit a return that gets "lost" in the crowd. To have a return pulled out for **improper deductions** increases your chances of an audit.
2. Present your return in a way that it does not become a candidate for IRS audit. If you take a legitimate but **inappropriate-looking deduction**, explain and document it so it does not generate more curiosity.
3. Make sure that your **tax return makes sense**. For example, it does not make sense to claim your father, mother, niece, or aunt as dependents and also claim payments made to these same dependents for child care.
4. Review your tax return to make sure that deductions are within **reasonable range**. Excessive amounts can get you into trouble. If you consistently surpass national averages, back it up. For example, a donation of \$6,000 on an adjusted gross income of \$40,000 is a red flag because the national average is only \$2,100. If you are a Seventh Day Adventist, Mormon, or a Catholic who gives tithes, opt out of e-file and attach explanation and documentation. A few minutes of your time to back it up could save many days or weeks of defending an IRS examination. If you want to see national averages, go to our website at [www.victorsycpa.com](http://www.victorsycpa.com) and look for a newsletter for "Average Personal Deductions."
5. Make sure that only **mortgage interests** covered by Form 1098s are reported on line 10 of Schedule A. Report mortgage interests that are not under your social security number (such as your house loan under somebody else's name) or those without 1098s (seller-financed or owner carried) on line 11. This is important because IRS matches mortgage interests reported by banks with Form 1098 against line 10 of Schedule A.
6. If you have **extra-ordinary expenses** such as big legal fees or huge donations toward a church building fund, opt out of efile and send a conventional paper tax return with documentation.
7. **Office at home** elicits emotions from taxpayers and interest from agents. Taxpayers swear that a portion of the home is used exclusively for business on a continuous basis. That's fine. We believe you. The problem is that IRS radar is locked into home office deductions. You have to be practical. Weigh tax savings versus risk. Most of the time, savings are so small that by the time you divide the square footage of a portion of the home used solely for business by the total area of your home and multiply that by your tax rate, the tax savings could be small but your audit profile has significantly increased. In other words, it's probably not worth it.
8. For those of you who run a business, be wary of deducting **capital expenditures**. Some expenses benefit the current year and therefore can be expensed this year (telephone, supplies). Some benefit future years and therefore should be capitalized and depreciated over years (car, computer, machine). TIP: Use section 179 of the Internal Revenue Code to expense equipment – if you need deductions this year.
9. If you own rental properties, do not deduct **capital expenditures** in the current year. Agents are on the lookout for large "repairs" that are actually major renovations that benefit future years.
10. **Start-up expenses** for a new business are incurred prior to the time you actually open your doors to customers. Agents look for incorporation costs or market surveys that should be capitalized, not expensed.