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HOW TO PREPARE FOR AN AUDIT - SHOE BOX OR ORGANIZED APPROACH?

By Victor Sy, CPA

There are two different approaches to prepare for an audit: shoe-box and organized approach. Let's discuss each method so you can determine which one is best for your next audit. ☺

The Shoe-Box Approach:

- The shoe-box approach calls for simply presenting records in a disorganized manner. It's like being yourself, naturally. The rationale: There is little time available for the agent to examine all problematic issues. You hope that the time pressure pushes the auditor to focus only on few issues rather than meticulously sort through more issues.
- While this is convenient for you (you don't have to do a lot work), the agent will certainly not appreciate this style, a subtle motive to transfer the workload to him/her, or perhaps hide something.
- This paper-bag approach may damage your relationship with the auditor who will not be happy with this strategy and may be less willing to compromise disputed issues.
- When tax data are hard to find or not produced even after another information document request, the agent may give up and be less inclined to raise new issues (good for you). On the other hand, the auditor may threaten to issue summons for the missing records (not so good for you, *malo*).
- It may be more difficult to achieve a good settlement.
- The auditor may discover new issues amongst disorganized records that you failed to weed out.
- In other words, I do *not* advocate this approach.

The Organized Approach:

- In my 33 years of defending taxpayers audited by the IRS and other governmental agencies, this methodical approach of presenting data in a logical and structured fashion is a better choice.
- It calls for organizing disbursements by category (interests, taxes, donations, rental, advertising, business promotion) and by periods (January through December). It calls for preparing lead sheets with checks and receipts clipped behind Excel spreadsheets.
- You send an unwritten message to the agent that you want to work together, that you ask for his/her help, and that you want to forge a team with the agent to resolve your case.
- You also recognize potential problems while sorting through your records such as finding documents that should not be there in the pile.
- This method speeds up the audit. It cuts down on your period of anxiety.
- In summary, I *recommend* this organized approach that has worked well for me and my clients.