

April 1, 2009

**RE: Current Events Memorandum  
Ten Way to avoid an IRS Audit**

There is no way to guarantee that a tax return won't be audited because the IRS randomly chooses some return to audit. The taxpayer should keep meticulous records to prove deductions.

**Ten audit red flags:**

1. **Not reporting all income.** Taxpayers should know that the IRS matches the income reported by employers, banks and brokerage firms against information provided on tax returns.
2. **Missing deadlines.** The IRS notices and penalizes taxpayers who mail their returns even a few days late. The thought would be that other rules have been disregarded.
3. **Self-employment.** If a taxpayer works for themselves and files a schedule C, there is a greater chance of an audit, especially if the IRS thinks that the business looks like a hobby.
4. **Not reporting stock trades.** Taxpayers should keep records of investments as some taxpayers make numerous daily trades online and don't keep track of the transactions. This is noticed by the IRS.
5. **Dealing in cash.** The financial world that deals in cash is highly scrutinized for cheating.
6. **Setting up an illegal trust.** "Family residence trust" and some foreign trusts are not allowed.
7. **Donating a car to charity and taking a deduction that is too large.** Under a law passed in 2004, the fair market value of the donation allowed under previous law is no longer relevant.
8. **Stepping out of bounds.** The IRS compares taxpayer returns with others that are comparable and if there are deductions that are "out of bounds", necessary records will be needed for documentation.
9. **Deducting prohibited or suspicious items.** Funeral costs and country club dues are looked at skeptically by the IRS as well as expensive meals and home office write-offs.
10. **Being a tax protestor.** The IRS has no patience for the argument that taxes are unconstitutional.

**Taxpayers do not have to attend an IRS examination. Often providing documentation is all that is needed to close an audit. Do not fear an audit; instead engage experts, GLO CPAs, LLLP.**