



To: Clients, Friends & Associates of Pro@ctive CPA
From: Mark Wyssbrod, Managing Member
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Re: IRS Techniques & Review Of QuickBooks File

The Internal Revenue Service (IRS) has continued to step up its audits and scrutiny of small businesses. At first, I asked myself, why would the IRS spend so much time and effort going after the small fish? The last several years I have heard how the IRS is ramping up and targeting the small guy. Why not spend more time auditing larger corporations which make more profit? If you would like to know why and what you can do about it please read on!

Then I had my epiphany! The light bulb turned on! Large corporations hire very intelligent attorneys and tax experts in order to reduce taxes; small business usually hires the cheapest. Large corporations using experts make the most of the tax code; small business believe only the sections of the tax code they want to believe in, which means they heard it from a friend of a friend instead of an expert navigating the tax code for them. Large corporations are multi-national and can transfer profits; small business is local or regional. Large corporations already have to pass an audit and have internal controls to prevent fraud; small businesses usually do not have to hire an auditor and have minimal internal controls. The result is the small business has become the backbone to US tax revenue.

In 2003 and 2004 the IRS found out the backbone to the US tax revenue was either very aggressive or a punch of cheaters, depending on how you view it. The number of aggressive positions increased from 12% in 2003 to 16% in 2004 as the economy improved and tax regulations became more favorable. If small businesses were aggressive in the good times, what do you think they did during the more challenging period (2006 to 2011)? No wonder the IRS is stepping up audit enforcement.

The IRS announced in 2007 the hiring of MBA graduates to become auditors. This was the direct result from a 2003 and 2004 study which indicated aggressive tax positions increased from 12% to 16%. So as the economy improved and tax regulations were more favorable, tax aggressiveness increased. Since small businesses tend to hire the cheapest tax preparer the audit risk is smarter professionals are auditing the tax returns than preparing the tax returns. Do business owners really want to rely on a bad data enterer to enter numbers into a software program and call it a tax return; just to be audited by an educated and experienced professional who knows what they are doing? It might just be worth to hire a solid tax professional on the front end.

To make matters more interesting, the Wall Street Journal reported in its May 26, 2011 edition IRS auditors are now requesting a copy of the QuickBooks data file to revise. The IRS understands the majority of small business use and depend on a relative easy program to use and understand, QuickBooks. The IRS's solution, train their auditors to be QuickBooks Certified. The result is now you have MBA graduates (smart people) with experience who understand how to use QuickBooks. A lot of tax



professionals do not understand or use QuickBooks, but the IRS auditors do. Do your QuickBooks even match your tax return? The IRS agents are in a much stronger position to audit the returns than a small business owner can defend them. The returns were signed on “penalties of perjury” and the preparers do have “paid preparer penalties”. Our experience is IRS agents tend to quickly escalate the audit and remind you on a regular basis (threaten?) these penalties. If you do not have the right preparer and time to close your books so they match the tax return you might not just be facing financial penalties, but civil penalties as well!

More importantly, should the IRS have a copy of your accounting system? The IRS does ask large corporations for a copy of their accounting system or a copy of their data files according to Art Auerbach, CPA. Why should the IRS act differently towards smaller businesses? Not many small businesses have the legal staff or budget to challenge the IRS on taking this position. The Wall Street Journal does report the American Institute of CPA (AICPA) is stepping in to help defend smaller businesses from this IRS request. If you decide not to turn over your QuickBooks data file to the IRS you might not much ground to do so. However, if this is your decision it is recommended to engage an attorney to take the position of not transferring the data file. This recommendation is not to be taken lightly because if the taxpayer or tax preparer takes this position the IRS may threaten “penalties of perjury” to the taxpayer and “paid preparer penalties” to the tax preparer.

The solutions are to be front-end focused and hire good audit representation. A few front-end solutions are to hire a tax professional who is education, certified, keeps up with the tax code changes, understands QuickBooks or your accounting software program, understands your business plan and model and can help you implement an efficient tax strategy instead being re-active. Hiring good audit representation would include having the professional review your accounting software and tax return and to show you places of audit risk before the meeting with the IRS. Usually, showing up to the audit with an amended tax return can help with the audit process (i.e. do the audit for the auditor).

These are several reasons we have high quality standards, including closing your books at your location so your tax return matches your accounting system and asking our clients for back up documents and questions to clarify transitions.

I hope you can see our hard work for you and that we truly do act in our clients' best interest.

Mark Wyssbrod, Pro@ctive CPA, has been helping small businesses achieve their goals since 1999. His proactive philosophy stems from the fact that traditional tax preparers are usually simple historians who react to their client's prior and current positions. Such a reactive stance means trying to fix mistakes after those mistakes are already made. Mark would rather prevent any mistakes in the first place. These philosophies have contributed for Mark's ability to forecast the economy accurately since he started in 2005 which he uses to help his clients navigate the economic challenges they face. Mark is the Managing Member of Pro@ctive CPA, Managing Member of GA 400 Think Tank, LLC and CEO of Pro@ctive Updates, LLC. You can reach Mark at (770) 664-8583.



Citing:

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