



## Memorandum

To: Clients, Associates & Friends of Pro@ctive CPA  
From: Mark Wyssbrod, Managing Member  
Date: July 12, 2011  
Re: Small Business Audit Update

### Introduction

What do earthquakes in New Zealand and Japan and a tsunami in Japan have in common with the US economy? Large US based businesses has huge supply chains and global customer base. The result in global events can have a direct, although delayed, effect on large, global US companies. The media has jumped on these events with “the sky is falling” news updates, especially in early June regarding an increase in unemployment and a slower economic recovery.

Combine the aforementioned events with the ending of QE2 (second round of quantitative easing by the US Federal Reserve) and fear has increased as the economy slows a little and unemployment risings for large businesses. However, small businesses different business drivers which affect them! What you hear on the evening news and read in the newspaper is generally the economy for large corporation.

We are seeing a boring, but steady recovery with our small business clients. One exception are the small businesses which seemed to never witness the great recession (for large businesses, more of a depression for small businesses) have been going through a soft patch. Although we continue to see revenue increase during the 2<sup>nd</sup> quarter, gross and net profit margins are still under a lot of pressure.

It's time to think strategically and implement solutions,

Mark W.

### IRS Audit Update: Your QuickBooks Data File Is Under Review

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?



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. And as a result the IRS announced in 2007 the hiring of MBA graduates to become auditors. Now these smart people have experience and understand the two most popular accounting software programs for small business, QuickBooks & Peachtree Accountings. A part of the audit request is a copy of your accounting data and program. This makes you wonder if the person auditing your tax return is smarter than the preparer. This is one of many reasons our firm takes out time and provides high quality standards.

Some differences between small and large business mindsets when it comes to taxes:

- Large corporations hire very intelligent attorneys and tax experts in order to reduce taxes; small business usually hires the cheapest
  - Solution: Hire the best value with the highest quality standard at the best price you can afford – this is why our firm works hard for you!
- 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.
  - Solution: Hire a professional which keeps up to date with the tax code and changes. This is why we go to continuing education classes and send these updates to you
- Large corporations are multi-national and can transfer profits; small business is local or regional.
  - Solution: You must make the most of tax code – this is why we emphasize year-end tax planning!
- 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.
  - Solution: Please in a better internal control system than you currently have – trust can be taken advantage of and you don't know it's been violated until it's too late!

We provide high quality standards so if you receive an IRS notice you can sleep at night. If you would like to discuss how you can improve your audit risks please call us!

Be smart and efficient,



## **Black Swan Events**

- Positive attitudes which the stock market thought could never end turned into 6 straight losing weeks ending June 10, 2011

## **Financial Ratio of the Month - Accounts Receivable Days**

Accounts Receivable Days (ARD) reflects the average length of time between sales and receipt of payment. It is different than Accounts Receivable Aging Summary which indicates the time an invoice is outstanding.

$$\text{ARD} = (\text{Accounts Receivable} / \text{Sales}) \times 365$$

ARD can be a barometer of your overall liquidity. The lower the ratio the better!

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