



# Audit Red Flags

- **HAVE NET LOSSES MORE THAN 2 YEARS**

If you report net losses for more than two out five years that your business has been operating, then you run the risk of being audited. Sole proprietorships are even more at risk than other small business types since the comingling of funds is common in this business structure.

- **CONSISTENTLY FILE LATE**

In addition to penalty fees, filing late can cause unwanted attention from the IRS. Filing late could provoke scrutiny that a timely filing would not.

- **HAVE TOO MANY DEDUCTIONS**

Carefully choose your deductions. Decide whether every meal, travel expense and mile driven truly qualifies as a deduction for business purposes.

- **CALCULATION ERRORS AND ROUNDED NUMBERS**

Do not round numbers or use averages, always work in decimal points when it comes to your earnings and expenses for tax purposes.

- **NOT REPORT ALL TAXABLE INCOME**

It is important for small business owners to stay organized and avoid commingling business money with personal money whenever possible. This is the best way to ensure no mistakes are made that could lead to income being under reported.

- **EXCESSIVE BUSINESS VEHICLE USE**

Think carefully about how each vehicle in your business is used and make accurate representations about the percentage used for business purposes. Keep track of mileage, dates, meetings, etc. Keep every receipt and a mileage log if you plan to claim vehicle usage.

- **LARGE AMOUNTS TO CHARITY**

If you suddenly decide to give large amounts of money to charity, this kind of income change could look suspicious to the IRS. Sometimes businesses give money to charity to avoid paying taxes on it.

- **MAKING ALL CASH TRANSACTIONS**

If your business uses mostly cash, this will get the attention of the IRS because it is more difficult to verify income received in cash. In addition, any large cash purchases are likely to be a cause for concern. This includes purchasing a new company vehicle or business equipment with cash.