**Tips to Audit Proof Your Tax Returns**

Did you know that when it comes to taxes, you are assumed to be *guilty until proven innocent*? In other words, when it comes to IRS audits, the burden of proof lies with the taxpayer. As such, if an item is called into question by the IRS, the taxpayer must show proof to support the deductions and tax positions taken.

This does not mean is that you should stop taking your tax deductions. On the contrary, you should still be doing what is necessary to maximize your tax write-offs. Just make sure you have the documents in place to support your write-offs. To help you minimize your audit risk and protect you in case of an audit, we have put together some helpful tips and best practices for this tax season:

**Expenses & Receipts:** We all hate them, those little pieces of paper that you get every time you spend any money. When we prepare your tax returns we do not need your receipts, but this does not mean that you throw them out. In case of an audit, your receipts are your insurance policy. For example, if you went to Costco to purchase some office supplies for your business, the IRS wants to see that receipt. Why? Because without that receipt, how will they know that the $35 on your credit card statement was actually a business expense? The good news is that keeping receipts does not need to be a hassle. The IRS will accept copies of receipts if you do not have the original ones. You can use Neat Receipts to scan them into your computer and then throw those tiny pieces of paper away. Another tip for an easy way to track your receipts is to simply take a picture of it with your phone right when you get it. This way you have an electronic copy of it in case of a future audit. Again, we do not need your receipts but you should keep them for your own records.

**Keeping Documents:** If you purchase a rental or primary home, make sure to hang onto your closing disclosures as well as receipts for improvements until at least three years after you sell the property. With these documents, you may need to hang onto them for decades, and although it seems like a very long time, it is better than having to hunt these documents down after the sale 10 or 20 years later. If a property was sold in the year of an audit, the agent may ask to see sales information as well as closing disclosures and information on improvements or assets that appear on your depreciation schedule.

**Separating Personal and Business Expenses:** Make sure that you always pay business expenses with your business card, and personal expenses with your personal card. On occasion you may need to reimburse yourself for business expenses that you paid personally, but try to keep these to a minimum. Also, make sure that you never pay personal expenses with a business card as the IRS may view this a commingling funds and it can open other returns for audit. Keep separate accounts and use them properly.
**Meals:** In order for meals expense to be deductible, business must be discussed before, during, or after the meal. For audit support, we recommend that you keep a copy of the receipt and write on it who you were with and what you discussed. Although meals are only 50% deductible, make sure that you provide the full amount spent to us to make sure that your expenses are properly captured. What if you invest in real estate with your spouse and every meal of every day is spent talking about real estate? Well, even though it may be tempting to deduct every single meal, odds are that the IRS will disallow all meals in this scenario. When it comes to meals expense, make sure you use reasonableness in taking your write-offs and have good documentation to support the business purpose.

**Travel:** Travel, unlike meals, is 100% deductible. Make sure, though, that you do not include meals in your travel expenses as these are two different categories. Mileage and auto expenses should also be kept separate. Travel should include items such as airfare, hotels, cab fare, dry cleaning, tips, and other expenses while away from home. Keep a log of your travels, and hang onto any receipts especially for lodging since the IRS will want to see the receipt in the event of an audit no matter the price of the stay.

**Auto Deductions:** If you have a car dedicated to your business, then the recordkeeping is easy. However, if your car is used both for business and personal, then it gets trickier. In this case, the IRS requires that you use a mileage log to track your business use % for the vehicle you drive. Your log should include date, business activity, and miles drive. There are plenty of software available online that can help you track this as well. Here is a tip: if your car travel is fairly consistent throughout the year, you may choose to track detailed mileage for a 2 to 3 month period and annualize it for the rest of the year. Click [HERE](#) to fill out our car deduction worksheet.

**Home Office Deduction:** If your home is your primary place of business, meaning that you spend the majority of your time working from home, then make sure that you keep track of your home expenses in order to take a home office deduction. Provide us with your total household expenses related to utilities, cleaning, internet, and maintenance in addition to either rents paid or mortgage interest and property tax. In order to qualify for this deduction, you must have a separate space set aside in your residence for your home office (i.e.: your home office cannot double as a guest bedroom). Take a picture of this space so that in the event of an audit you can show that you have a dedicated place for business. Click [HERE](#) for our Home Office Worksheet.

**Real Estate Professional Status:** Do you qualify as a real estate professional? If so, make sure that you have a logbook of your real estate hours. Travel time, checking in with property managers, meeting contractors, and looking at new properties are all events that should be logged with the date, property, activity, and time spent. This way, in the event of an audit you can prove that you met the 750 hour requirement and can prove that you spent more time in real estate than your other income earning activities. [HERE](#) is a link to our Real Estate Professional Time Tracking Excel for your reference.

**Non-Cash Donations:** To support any noncash donations, you should obtain a receipt from the charity for each donation you make and keep a detailed list of the items you donated. Another
way to audit proof your donations is to take pictures of the donated items to help substantiate that they are in good condition. You do not need to provide the pictures or receipts to us for tax preparation, but make sure that you keep them handy in case of an audit. Click HERE for a copy of our Noncash Donations Worksheet.

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