

2013 Audit Guidelines For Small Business

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What three letters strike fear into the heart of small business owners across the United States?

I . . . R . . . S Internal . . . Revenue . . . Service.

And in 2013 there may be even greater reason for small businesses to feel concern. That's because the [2013 Audit Guidelines](#) issued by the IRS reveal plans that will likely result in an increasing number of small businesses being audited, that according to an [article](#) at Small & Medium Business Magazine online.

This is because at least two of the eight areas of focus identified by the IRS impact small business.

First is the plan to increase audits on individuals who file Schedule C and have income of more than \$1 million. Last year, approximately 12.5% of all such individuals were audited and the number is expected to increase.

Second, is Form 1099-K matching. The 1099-K is a new IRS form that credit card companies and third party payment networks are required to send to many businesses detailing the amount of payments they received from credit card transactions. A new pilot program will allow the IRS to match 1099-K forms to the income reported by small business and discover discrepancies between the two.

These two items are part of eight "areas of focus" the IRS identified in the 2013 Audit Guidelines. Others include:

- Fringe benefits, such as the use of company cars, especially luxury cars
- The small business credit for employee health insurance
- International transactions, vis-à-vis hidden overseas assets and offshore transactions
- Partnerships, especially those reporting large losses
- S corporations, with a focus on various issues related to losses, income, distributions and avoidance of Social Security taxes, among other things
- Employment taxes related to misclassification of employees as independent contractors

The IRS does not need to be a source of fear for small business owners, especially those wise enough to act appropriately and avoid actions that unnecessarily increase the risk of audit.

Still, every small business needs to be aware of the IRS audit guidelines and "areas of focus" in order to incorporate this knowledge into their overall strategic business planning.

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