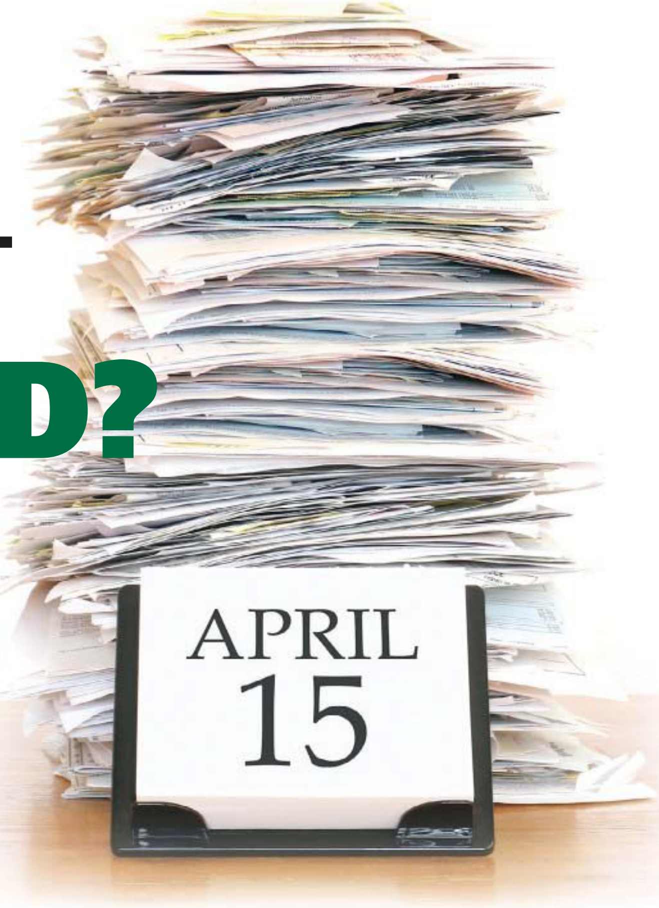
Q: WHAT IF I GET AUDITED?

BY DANIEL S. GORDON



A: All land care professionals need to maintain accurate financial records. The most obvious reasons for doing so is to assess the results of operations against past periods, analyze current budgets or to formulate future projections. Moreover, for ownership and management, this is an internal need to monitor and improve the business.

Yet there's an external partner in your business needing to be fed accurate information, too. And if that partner requests, you, as an owner/manager, must prove the accuracy of the information. If you're wrong or can't prove the information is accurate, you may be subject to fines. Who's this partner? Well, there are several. They include the Internal Revenue Service (IRS) and state and local taxing authorities.

You're responsible for providing these taxing authorities financial statements summarizing the results of your operations to report tax liabilities and provide tax payments. Depending on the type of legal entity you operate, you may be required to provide a balance sheet and a profit and loss statement. It's your responsibility to support every number on your tax return with corroborating documentation.

JUST SHOWING YOU PAID AN ITEM ISN'T SUFFICIENT. IT MUST BE **NECESSARY AND REASONABLE, SUPPORTING A BUSINESS PURPOSE** TO BE DEDUCTIBLE.

This sounds like a lot of work. It is. The problem is we get so involved with running our businesses, we put record keeping on the back burner and do a mad dash at tax time to organize our records. A landscape business has many moving parts, including prepaid customer accounts, renewals, payroll, loan/lease payments for vehicles and premiums payable or refunded, based on general liability or workers' comp insurance audits. These items, as well as other issues, make bookkeeping a tedious, important task. But, luckily, you have some leeway in how you bookkeep.

REQUIRED RECORDS

The IRS doesn't have a prescribed record-keeping system. You may choose any system suitable to your needs as long as it clearly shows your income and expenses. It should include a summary of your business transactions, primarily the ledgers a part of your accounting system. Many land care professionals use QuickBooks or Peachtree for their ledger requirements. Both provide adequate detail when drilling into subledgers. As long as the transactional information is accessible, accurate and detailed enough to trace and agree to a source document, you'll fare well in the data presentation phase of an audit.

Assuming your ledgers are correct, each transaction needs to be supported by a source document, which can be electronic. Purchases, sales, payroll and other transactions will generate supporting documents such as invoices, receipts and others, which contain the information that must be recorded in your ledgers. It's important to keep these documents because they support the entries in your books and on your tax return. Keep them in an orderly fashion and in a safe place. For example, organize them by year and type of income or expense.

continued on page 46

PHOTO: ISTOCK INTERNATIONAL INC.

PHOTO: ISTOCK INTERNATIONAL INC.

IT'S YOUR RESPONSIBILITY TO SUPPORT EACH AND EVERY NUMBER ON YOUR TAX RETURN WITH CORROBORATING DOCUMENTATION.

continued from page 44

It's important to note a record needs to be verifiable and must support a transaction includible in income or deductible as an expense as allowed by the tax code and regulations promulgated there under. Just showing you paid an item isn't sufficient. It must be necessary and reasonable, supporting a business purpose, to be deductible. Here are basic records that substantiate the following items:

Gross receipts are the income you receive from your business. You should maintain supporting documents showing the amounts and sources of your gross receipts. Documents for gross receipts include:

- Signed service tickets or invoices;
- Bank deposit slips;
- Credit card charge slips; and
- Forms 1099-MISC received from customers.

Planning pointer

You may choose any record-keeping system that suits your needs as long as it clearly shows your income and expenses. Your system should include a summary of your business transactions, primarily the ledgers that are part of your accounting system.

Purchases are the items you buy and resell to customers or materials you apply during your service visits. Your supporting documents should show the amount paid and the amount was for purchases. Documents for purchases include:

- Vendor invoices for material, supplies and equipment;
- Cancelled checks; and
- Credit card sales slips.

Expenses are the costs you incur (other than purchases) to carry on your business. Your supporting documents should show the amount paid and the amount was for a business expense. Documents for expenses include:

- Cancelled checks;
- Legal agreements, such as leases, note payable, mortgages, etc.;
- Account statements;
- Credit card sales slips;
- Vendor invoices; and
- Petty cash slips for small cash payments.

RETAINING RECORDS

The minimum amount of time to retain records for tax purposes depends on the item, when it's recorded and if it will be part of a future transaction. For example, you purchase a vehicle and sell it in five years. The transaction five years hence would be a future transaction requiring information from the original purchase. Generally, you must keep your records supporting an item of income or deductions on a tax return until the statute of limitations for that tax return runs out.

The statute of limitations is the period of time in which you can amend your tax return to claim a credit or refund, or the IRS can assess additional tax, usually three years after filing. Returns filed before the due date are treated as filed on the due date for this purpose. In the following situations you'll need to produce records past the normal statute of limitations:

- Records for as many as six years after filing if you fail to include income you should've reported, and it's more than 25 percent of the gross income reported on the original return.
- Records for as many as seven years after filing if you file a claim for a loss from worthless securities or bad debt deduction.
- All employment tax records for at least four years after the date the tax becomes due or is paid, whichever is later.
- If you file a fraudulent return or you don't file a return, your records might be examined indefinitely.

These are the rules for the supporting documentation. However, I like to keep copies of the tax returns long after they're filed. They can help when preparing future tax returns and when making computations if you file an amended return. Keep records relating to property purchases and improvements until the statute of limitations expires for the year in which you dispose of the property. These records must be kept to determine any depreciation or amortization and figure the gain or loss when you sell or dispose of the property.

Keep accurate and complete records supported by a well-maintained bookkeeping system. This allows you to perform proper planning for growth and profit and, foremost, comply with any requests for records during an IRS audit should you be called on to prove your tax return is accurate. LM

Gordon is a CPA in New Jersey who owns an accounting firm that caters to landscape professionals throughout the U.S. He can be reached at dan@turfbooks.com.