

IRS Audit Techniques Guides provide clues to what may come up if your business is audited

IRS examiners use Audit Techniques Guides (ATGs) to prepare for audits — and so can small business owners. Many ATGs target specific industries, such as construction. Others address issues that frequently arise in audits, such as executive compensation and fringe benefits. These publications can provide valuable insights into issues that might surface if your business is audited.



What do ATGs cover?

The IRS compiles information obtained from past examinations of taxpayers and publishes its findings in ATGs. Typically, these publications explain:

- The nature of the industry or issue,
- Accounting methods commonly used in an industry,
- Relevant audit examination techniques,
- Common and industry-specific compliance issues,
- Business practices,
- Industry terminology, and
- Sample interview questions.

By using a specific ATG, an examiner may, for example, be able to reconcile discrepancies when reported income or expenses aren't consistent with what's normal for the industry or to identify anomalies within the geographic area in which the taxpayer resides.

What do ATGs advise?

ATGs cover the types of documentation IRS examiners should request from taxpayers and what relevant information might be uncovered during a tour of the business premises. These guides are intended in part to help examiners identify potential sources of income that could otherwise slip through the cracks.

Other issues that ATGs might instruct examiners to inquire about include:

- Internal controls (or lack of controls),
- The sources of funds used to start the business,
- A list of suppliers and vendors,
- The availability of business records,
- Names of individual(s) responsible for maintaining business records,
- Nature of business operations (for example, hours and days open),
- Names and responsibilities of employees,
- Names of individual(s) with control over inventory, and
- Personal expenses paid with business funds.

For example, one ATG focuses specifically on cash-intensive businesses, such as auto repair shops, check-cashing operations, gas stations, liquor stores, restaurants and bars, and salons. It highlights the importance of reviewing cash receipts and cash register tapes for these types of businesses.

Cash-intensive businesses may be tempted to underreport their cash receipts, but franchised operations may have internal controls in place to deter such “skimming.” For instance, a franchisee may be required to purchase products or goods from the franchisor, which provides a paper trail that can be used to verify sales records.

Likewise, for gas stations, examiners must check the methods of determining income, rebates and other incentives. Restaurants and bars should be asked about net profits compared to the industry average, spillage, pouring averages and tipping.

Avoiding red flags

Although ATGs were created to enhance IRS examiner proficiency, they also can help small businesses ensure they aren’t engaging in practices that could raise red flags with the IRS. To access the complete list of ATGs, visit the [IRS website](#). And for more information on the IRS red flags that may be relevant to your business, contact us.

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