



Can You Survive an IRS Audit?

By Joy E. Hacker, CPA
Clifford & Associates

<http://www.sharetheharvest.com> 1-800-456-1803 joyhacker@sharetheharvest.com

In my experience, most people are diligent about adding up those items that provide tax savings—such as charitable contributions, business expenses, clergy housing expenses, etc. However, **knowing** the correct amount you spent and **proving it** to the IRS may be two different matters.

The IRS has placed an increasing emphasis on disallowance of deductions that are not adequately documented. For decades, cancelled checks have served as the primary documentation for many expenses. Recent advances in technology have led many banks to stop returning cancelled checks to their customers, and suddenly many taxpayers are facing a risk of inadequate documentation.

IRS documentation rules have not changed, even though banks have undertaken new procedures. Every deduction or exclusion claimed on your tax return must be supported with adequate documentation. Now is the time to review whether you are maintaining adequate records and make any needed changes for 2010.

STEP ONE: Prove that the expenditure has been paid. If you no longer receive cancelled checks from your bank, you may have to use alternative procedures to document your expenditures. Since an audit generally won't take place until 2-3 years after you file your tax return, it is important to collect and organize your documentation before the tax return is filed. Please note the following ways that you can (or cannot) prove an expenditure has been paid:

Not Adequate Proof of Payment:

- Check register listing only
- Duplicate checkbook only
- Copy of check for contribution of \$250 or more
- Contribution solicitation form marked with check number and amount paid

Adequate Proof of Payment:

- Store purchase receipt (detailed)
- Copies of checks printed from online bank account, except contributions of \$250 or more (recommend printing front and back of any tax payment checks)
- Mini-check copies provided by bank, except contributions of \$250 or more
- Duplicate checks plus bank statements, except contributions of \$250 or more
- Photocopy of checks (before mailing) plus bank statements, except contributions of \$250 or more
- Credit card bill if adequate detail provided
- Receipt from charitable organization containing required information

STEP TWO: Prove that the expenditure meets deduction requirements.

In addition to proving that you have spent the cash, you must be able to prove the expenditure is eligible for a specific tax deduction. Some expenses are straightforward; for example, if you can prove you paid real estate taxes you are eligible to deduct them. The requirements for other deductions, however, are more complicated. Note the following examples of additional documentation required (list is not intended to be comprehensive):

- Business meals and entertainment—date, location, business purpose, and participants
- Business gifts—date of gift, description, and business purpose
- Business cell phone or computer usage—log of time on business vs. personal use, business purpose

A Note about Contribution Documentation Requirements:

The IRS is convinced that taxpayers frequently cheat when reporting the amount of their charitable contributions, and this is currently an area of

intense scrutiny. Please keep in mind these requirements:

- Contributions of \$250 or more to a single charity on the same date must be documented with a valid receipt from the charity. For contributions less than \$250, either a receipt or cancelled check is acceptable.
- To be valid, the charity's receipt must include: name of organization, name of donor, date and amount of contributions, and appropriate language concerning any goods or services provided.
- Contributions must be to nonprofit organizations; payments to individuals, political organizations, and lobbying groups are not deductible.
- Rules for deducting noncash donations are very stringent; contact a tax advisor first!
- **No documentation = no deduction.** By law, you must obtain the documentation for your charitable contributions **before** you file your tax return.



Per IRS regulations, all church giving receipts must indicate that the donor received only intangible religious benefits from the donation. The following statement would meet the requirements:

Pursuant to Internal Revenue Code requirements for substantiation of charitable contributions, the _____ Church provided no goods or services in exchange for these contributions other than intangible religious benefits.

If you have questions, please contact one of the professionals at our office.