

IDEA TODAY[®]

MARKETING/MANAGEMENT

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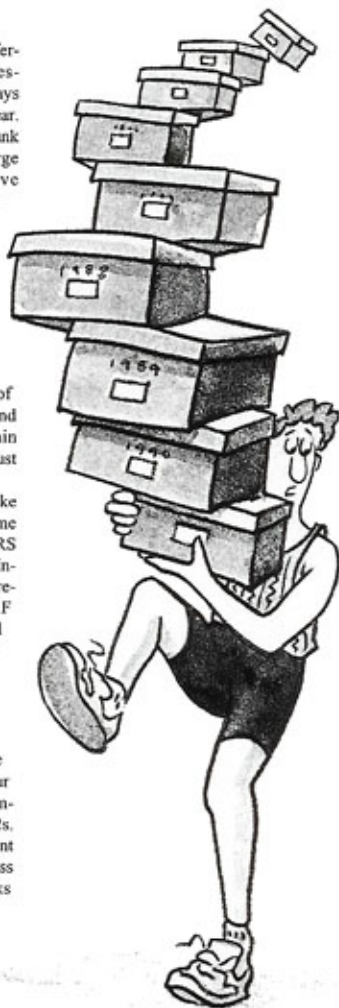
A (YIKES!) TAX AUDIT NOTICE IN YOUR MAILBOX?

After you panic, dive in with this preparation plan.

Fitness professionals dress differently from most of the professional world—we spend our days in biking shorts and exercise wear. The tools of our trade include funk and rock 'n' roll music; strange, large rubber band devices; and massive amounts of surgical tubing. To top it off, studies show that our average annual income is somewhere in the \$10,000 to \$20,000 range. Hard to imagine why anyone from the Internal Revenue Service would want to talk to us, right? Wrong. Unfortunately, even professional fitness instructors with fledgling businesses must be aware of the rules of the IRS and must plan and file accordingly. "Nothing is certain except death and taxes" applies to us just as much as the next businessperson!

Every year, the IRS rolls the dice like a craps shooter and reviews the income tax returns of a certain quota. The IRS uses a tool called the Discriminate Income Function (DIF), which scores returns for audit potential. The DIF compares deductions to expenses and notes "red flag" items. We have all heard about certain red flags, like home office deductions and exorbitant amounts of expense in the "entertainment" category of Schedule C. But we might not think about the flags raised for inconsistencies in our paperwork versus reports issued by companies and submitted as 1099s or W2s. These reports come from many different sources, including employers, business associates, contract employers, banks and brokerage firms.

If the IRS discovers a discrepancy between your reporting and the paperwork



the IRS receives from these other sources, you may receive the ominous notice in your mailbox asking you to schedule an appointment to review your records.

The Audit Notice

An audit notice looks very much like a letter and politely informs you that you must meet with the IRS. After you break out in a profuse sweat, first call your tax preparer and then respond to the IRS to set up an appointment. You have a right to set an appointment that will be convenient for you. Never ignore an IRS notice, even if you know your return is correct. Your lack of response—particularly after a deficiency notice, which will give you 90 days to respond—will result in an assumption of guilt, and you will be billed for the taxes, penalties and interest that, in the opinion of the IRS, you owe from a discrepancy.

You will probably be told in the notice exactly which information is being questioned for which year and which part of your return will be reviewed. If you are not told in the notice, ask for a Document Request specifying the exact documents the IRS wants to see. In some cases, if you are self-employed, you will be required to review your entire return. Be prepared to spend several hours collecting, categorizing and organizing all your receipts, checks, and diary and mileage notes for the year, if you didn't already do so when you filed your return. The IRS will go back as far as three years, so you will probably find yourself dusting off your information. Re-familiarize yourself with all of it! ▶