

Is QuickBooks Helping the IRS Audit Your Books?

In the past, an IRS agent would request printed reports and back up paper documents during an audit. There is now the possibility that they will request an actual copy of your QuickBooks file - not just your printed general ledger.

According to the National Association of Tax Professionals, IRS auditors are now being instructed to obtain a copy of the taxpayer's QuickBooks data file for audits for any taxpayer that uses QuickBooks. If the taxpayer refuses to provide the file and the auditor deems it necessary, they can issue a Summons for the file!

Here are some things you need to keep in mind:

1. In the newer versions of QuickBooks, you CANNOT turn off the audit trail. Therefore, once you enter it in QuickBooks, it is NEVER gone. Like that picture from a presidential candidates "experimental" days, it will resurface. You can't undo it. So use caution as you enter things and forget about delete.

2. When you need to void a transaction - make sure you memo why you voided it. Did the customer refuse to pay the invoice, did you give away the product, did the bookkeeper double enter something? Put a description in the memo because you won't remember in three years why you did it.

3. DO NOT MAKE CHANGES TO TRANSACTIONS IN A CLOSED FISCAL PERIOD. If your taxes for last year have been prepared - don't make changes to that information. If you do, it won't match what was filed with the state and federal government and will present an issue should an audit be performed. Prevent changes by setting the closing date password under Edit>Preferences>Accounting>Company Preferences>Set Date/Password. Check your closing date exception report (on accountant versions of QuickBooks only) or have your bookkeeper and/or accountant pull that report for you.

4. At your year end, consider making a copy of your Quickbooks data file and keeping it permanently as a "final backup" so that if a certain year is audited, you can condense prior years' data and there will be no future years' information in the data file for the auditor to see. The auditors are instructed to review only the information for the year under audit, but why not make it possible for them to ONLY see the year in question.

Government agencies are in desperate need of money, so they will be scrutinizing your records more than ever – keep it clean!