

How to Protect Your Firm From the IRS

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If your firm is audited, the IRS uses the electronic files for the audit. Small businesses are concerned that some requested files may contain data outside the period under audit. The IRS could use the unrelated data for a “fishing expedition” or to access unrelated customer or private data outside the scope of the IRS audit or information request.

IRS recommendation: Back up data files at the end of each tax year so you have a file with complete, but limited, data. Some software lets you provide a file in which data for any periods not under audit are condensed or archived. [Tax Notes Daily]

AIPB tip: Electronic files provided to the IRS in an audit must be exact copies—they cannot be altered. Don’t wait. Find a method for isolating all data for a given year that excludes data from other periods. If you cannot do this, at year-end back up that year separately.