



## KNOW THE “DIRTY DOZEN” TO AVOID AN IRS AUDIT

Many times our clients ask us about being audited. Many want to know what the IRS is looking for when they determine who gets audited. Here are the so-called “Dirty Dozen” that will generate correspondence from the IRS:

1. **Failure to report all taxable income.** This includes all W-2 forms, 1099 statements and statements showing stock and bond trades (Form 1099-B).
2. **Incorrectly claiming the new home-buyer credit.** Even though the program has ceased, some people still think the program is in effect.
3. **Claiming large charitable deductions.** Documentation is required for all donations of \$250 or more. Many taxpayers donate clothing and used household items to various charitable organizations. Please remember that you, the taxpayer, are required to provide an inventory of all items that are donated. We will help you determine the donation amount you can deduct. If you do not provide this information, we cannot take this deduction for you. In these circumstances, you can lose a major deduction.
4. **Taking the home office deduction when the requirements are not met.**
5. **Taking excessive meals, travel, and entertainment deductions.** You must keep detailed records showing each expense by place, persons attending, and business purpose.
6. **Claiming the deduction for 100 percent business use of your vehicle.** Personal use of your vehicle on weekends and doing chores cannot be deducted.
7. **Claiming a loss for a hobby activity.** Hobby losses are not deductible unless you are in the business of making a profit (e.g. being a flea market vendor). You will have to prove a legitimate business purpose.
8. **Operating a cash only business.** Income receipts and expenses are required to prove a legitimate business purpose. The IRS will investigate your bank account to watch for deposits and withdrawals that may be suspicious.
9. **Failure to report a foreign bank account.** The penalties for these types of transactions can be quite severe and may lead to a more in-depth investigation.
10. **Engaging in cash-only transactions in excess of \$10,000.** This includes casinos, car dealers, and other businesses. Banks are required to report suspicious transactions. An example would be if you deposit \$9,000 one day and another \$9,000 within 2 days. The banks and the IRS look for patterns.
11. **Making mathematical errors.** These are becoming less frequent since computer software is often used. Still, it is wise to be diligent.
12. **Taking higher-than-average deductions.** The IRS uses sophisticated analysis by zip code to determine certain demographics including cost of living expenses. If your deductions are above the norm, this may trigger a review. However, with the proper documentation, these issues are readily resolved.



*As with all tax issues, please do not hesitate to contact us to discuss any issue or concern.*



## WHAT TO DO WHEN YOU CAN'T PAY YOUR TAXES?

When taxpayers are unable to pay taxes, the IRS can obtain liens on taxpayers' property to secure payment of outstanding taxes. The IRS will file a Notice of Federal Tax lien. This allows the government to obtain the highest priority to collect taxes owed before claims by other creditors.



Tax liens can hurt struggling taxpayers because the notice of the lien will affect the taxpayers FICO score (credit score based on your credit history). The score will be lowered and affect the taxpayers' ability to borrow money, buy a home or rent an apartment, buy or lease a car. Many companies now run credit score checks on potential employees. A poor credit score can eliminate an otherwise qualified person for a job.

The IRS has recently decided to help taxpayers with these issues. They include raising the tax lien threshold from its current level of \$25,000 to an amount to be announced in 2012, making it easier to withdraw a tax lien, improving the Installment Agreement process, and improving the Offer in Compromise program.

These topics will be discussed in more detail in future issues. As with all other tax and financial issues, please don't hesitate to contact us for information and guidance.

## NEED A COPY OF YOUR TAX RETURN?



Many times taxpayers need an extra copy of their tax return or have misplaced their copy. You can now get a copy, **free of charge**, directly from the IRS. Just go onto the IRS website, [www.irs.gov](http://www.irs.gov). Click on the tab for individuals. Click on the topic, "Need a Copy of Your Tax Return Information". Then click on "Order a Transcript" and follow the directions. If you have any problems, you are most welcome to contact us for assistance.

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Please call us with your tax and financial questions. Steinberg Enterprises, LLC provides confidential, convenient services based on over 25 years of practical financial management and tax experience.

*We are committed to improving our clients' financial well being.*

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