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Who is likeliest to get audited - and tips for avoiding scrutiny

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A tax audit is an experience every sane businessperson strives to avoid. Unfortunately, there's no way to guarantee that the IRS won't pay you an unwelcome visit; the government's exact formula for choosing who is audited remains a well-guarded secret. And even if you are chosen for a tax audit, you may face a variety of different types.

Even if you can't be sure you'll avoid an auditor's attention, however, tax experts have identified some factors that may flag a return for closer scrutiny. It pays to be extra careful when filling out your tax return, and to keep the best possible records to document your business operations and expenses, if you fall into one of the following categories:

1. Self-employed people;

2. Corporate returns reporting income of $250,000 or more;

3. Individuals who claim a home office deduction;

4. Sole proprietors in businesses:

-- in which income is mostly attained from tips, such as waiters and cab drivers;

-- involving large amounts of cash, such as auto salespeople;

-- involving a lot of travel, such as airline pilots and flight attendants;

-- that are service-oriented, such as lawyers and doctors;

5. Recreational-type businesses that could be classified as hobbies;

6. Businesses using subcontractors instead of employees;

7. Returns with large deductions relative to one's income for charitable gifts, travel, meals and entertainment.

Whether your business is more likely to be an IRS target, experts say you can still reduce your risk of an audit by:

-- Answering all questions on your tax return;

-- Using exact numbers, not nice round numbers (use $4,892.18, not $5,000.00);

-- Double-checking your math for errors;

-- Preparing your report neatly and accurately;

-- Attaching explanations for any items that may appear questionable.

If you do get audited, the burden of proof lies with you. You'll need to substantiate and account for all deposits, and you'll have to prove that all your expenses - such as travel, meal and entertainment costs - were necessary for your business.

Always keep logs of your business activities, including detailed dates and locations, exact amounts and descriptions for expenses, names of the people with whom you did business, and the topics you discussed. In addition, save applicable documents such as receipts, bank statements and canceled checks.

Deductible expenses

You can deduct many expenses commonly associated with your business, such as:

-- Employee wages and most benefits

-- Rent payments

-- Interest on loans

-- Real estate taxes

-- State, local and foreign income taxes

-- Business insurance

-- Advertising and promotional costs

-- Employee training

-- Education to maintain or improve your own required business skills

-- Legal and professional fees

-- Utilities

Know your tax deadlines

Most tax returns are due April 15 for unincorporated companies and S corporations, but C corporations must file annual corporate returns within 2 1/2 months after the close of their fiscal year. Estimated taxes are due April 15, June 15, Sept. 15 and Jan. 15. Sales taxes are due quarterly or monthly, depending on the rules in your state. Employee taxes are due weekly, monthly or quarterly, depending on the size of your payroll.

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