



September 28, 2011

Validating your Tax Deductions

If you receive an audit notice from the IRS, you will need to produce the relevant documentary proof to validate the deductions being audited. To face the audit, you should obviously have a copy of the tax return you submitted. If you did not keep a copy, get in touch with the tax preparer who prepared your return and request a copy.

With the copy of your tax return, you can counter check all the expenses you have made to determine the accuracy of the deduction you claimed. Add up the receipts and check it with the amount you claimed in your tax return. If they match, then you have all you need to show the IRS auditor. If not, then whatever doesn't add up will probably not be allowed as a valid deduction.

If you are not able to come up with the receipt of your deductible expense, you can take a picture of the item (if your deduction has to do with something you bought). A picture may come in handy when you are writing off major assets like air conditioners and heaters for a rental property or office furniture, equipment and fixtures for your business. Of course, proving that you made the purchase during the year in question may be difficult.

With your receipts, the auditor will determine which deductions are allowed and which are not and if there are any adjustments to the figures of those which are. For example, if your \$1,000 donation to the non-profit orphanage also includes the purchase of a ticket to a charity dinner that costs \$200, then the amount of deduction would likely be adjusted to \$800. For such charitable contributions, you also need a letter of confirmation from the charity.

Usually, once you can validate your deduction with some form of documentary evidence, it would be allowed. The common types of allowable deductions are property taxes, vehicle registration fees, medical expenses (taking into account insurance reimbursements), state income taxes withheld and paid etc. The IRS would question the expenses that involve personal or non-business activities where disallowed expenses might be included like travel, meals, entertainment, vehicle expense, home office etc.

Certain expenses require more detailed records for example, if you use your personal vehicle for business, you need to show a record of the mileage of your vehicle. If you have not been keeping records throughout the year, you need to reconstruct your vehicle use. Usually auditors will accept a reconstruction in lieu of a continuous record. In view of this, it is wise to record the beginning and ending odometer readings for the year. This will provide the total mileage figures required on your tax return.