

## SMALL BUSINESS

# Audit-Proof Your Small Business

Eight tips for keeping your business expenses and record-keeping organized.

by: **Andrew Gillund, CPA, MBT** - August 1, 2022



*Getty Images*

When you're running a business, you have a lot to manage. If there isn't a person in your face forcing you to stay on top of a task, it can be easy to keep putting it off to tomorrow, Friday or next week ... and soon you have a large pile to work through.

While this strategy works for many projects, **it can lead to trouble** in the financial realm. If you're audited, you'll need a track record for each transaction or **face consequences**. Your business expenses are not something you can make up or give your best-educated guess. They need to be accurate, and you need to have the evidence to back them up.



The best and least stressful way to keep your business expenses accurate is to maintain what the IRS calls a contemporaneous approach. It's basically an organized approach for tracking your expenses as they occur. Here are eight tips to help you manage your business expenses and finances and ensure you are prepared in case of an audit.

## 1. Pick a strategy that works for you

You can outsource your finances by hiring a bookkeeper or a "QuickBooks expert." The more cost-effective but time-intensive route is to track your expenses yourself, either by hand or electronically.

## 2. Know what to track

You'll want to track the following items. Ensure you've got a strategy for each.

- Cash flow
- Expenses
- Donations/charitable giving

## 3. Store your business expenses information in one place

Law requires you to [keep all tax records](#) for at least three years. This can either be a digital copy in the cloud or a physical copy. You might also store your expenses within your subscription service app.

## 4. Keep your business and personal accounts separate

Having a separate bank account for your small business will help you not mix up your personal expenses with your business expenses. Having a credit card connected to the business account will also enable you to easily send business expenses through that account.

## 5. Use technology and apps to help streamline the process

Traditionally, professionals would keep all business receipts in a manilla envelope. Nowadays, there are many electronic, paperless options that sync to your accounts or allow you to upload photos of receipts. Pick a platform you're comfortable with

for tracking business expenses.

- Other subscriptions to consider include Expensify, Certify, and Zoho Expense (a lower-cost option).



Additionally, you may utilize apps to assist in tracking a particular category of expenses. Google Maps can assist in re-creating and tallying your business mileage. MileIQ is a great app for accurately tracking your mileage by tracking your movement for business trips, and it can generate a report at the end of the year.

## 6. Understand what qualifies as a deductible

This is one of the key areas that trigger disputes, so it's critical to understand what does and does not qualify. According to the IRS, **business deductions should be "both ordinary and necessary."** In other words, it's an expense that is common for businesses within your industry and is needed for running the business. This largely includes office expenses such as printer paper, monitors, computers, pens, etc.

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If you're unsure whether [an expense qualifies as a deductible](#), track it. Later, your tax adviser can guide you in determining whether to include that expense.

## 7. Remember: Only your business can make business deductions

If employees are incurring expenses on behalf of your business, their option is to discuss reimbursement with you. Employees are not able to make business deductions on their personal taxes. [This rule changed within the past few years](#), so some people may find the consequences confusing.

For example, people can only [write off having an office at home](#) if they are self-employed. Otherwise, employees should discuss reimbursement with their employers.

## 8. Understand how to track donations

Your charitable donations are not a deductible business expense if you are a sole proprietor reporting your business income on a Schedule C, but potentially they could be an itemized deduction on your personal return. If a donation is completed in exchange for a sponsorship, it can be categorized as advertising or marketing rather than charity.

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