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Page Title: Schedule C Form 1040 Filers Beware: The IRS Is Monitoring Your Deductions | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: [NAME OF FIRM] shares six triggers that may cause the IRS to scrutinize your Schedule C Form 1040.

Headline: **Schedule C Form 1040 Filers Beware: The IRS Is Monitoring Your Deductions**

BODY COPY:

Every independent business owner wants to reduce their taxes by taking advantage of allowed business deductions. However, just how much taxpayers take advantage of such deductions has caught the attention of the IRS. If you file a Schedule C for income and related business deductions, it's important to understand what the IRS is watching for.

Some self-employed taxpayers – and this includes both low- and high-grossing business owners – tend to claim an excessive amount of deductions and/or don't report all of their income. Taxpayers who run a cash-intensive business, and those whose Schedule C reports a considerable net loss, raise the red flag even higher.

What else is the IRS looking for? Here are some potential pitfalls you will want to avoid:

Significant Increase in Income: If you are making a lot of money, congratulations—that's great. Just bear in mind that the IRS is more likely to audit those with higher income. For example, in 2016 the IRS examined 0.65 percent of individual returns reporting income less than $200,000. That number increased to 1.70 percent for income over that amount. And if you report income of at least $1 million, that increased to 5.83 percent last year. This isn't meant to put a damper on your earnings potential—just be aware and keep good records.

Consistent Deduction of Losses: At the other end of the spectrum, the IRS does not like year-over-year deductions of losses. As a general rule of thumb, the IRS wants to see businesses generate a profit at least three out of every five years. If you don't hit these numbers, you must be prepared to provide sufficient documentation and be ready to account for your losses.

Reporting All Income: When you're filing a Schedule C, the IRS wants to be sure you're filing *all* of your income, particularly if you are in a business that deals mostly in cash transactions. In particular, the IRS will look for income reported on a 1099-MISC.

Substantial deductions for entertainment and meals: Keep in mind that under tax reform, entertainment expenses can no longer be deducted. Business meals are still 50 percent deductible, with certain conditions. If you are unsure, you'll want to check with your tax professional. You'll also want to keep careful records to back up the nature of your meetings, the people with whom you met and the business purpose for the meeting.

Claiming Real Estate Losses: If you are in the business of real estate – especially if it's a side business – and take losses, you guessed it—another red flag. If you are a real estate professional who spends more than half of your working hours and more than 750 hours each year materially participating in real estate as an agent, broker, landlord or developer, there is no limit to the amount of losses you can write off. The IRS watches for those who claim they are real estate professionals but whose W-2 forms or other non-real estate Schedule C businesses show significant income.

Deductions for Vehicle Use: If you are claiming that a car was used 100 percent for business purposes, guess what? A big red flag. The IRS becomes skeptical when someone claims to use a car for business full-time, and they will check to see if another car is available for business use. Again, keep very careful records of your mileage and use calendars to document every trip you take. And it should go without saying, but we'll say it—if you take advantage of the IRS' standard mileage rate, you can forget about claiming actual expenses for insurance, maintenance and depreciation.

By reporting accurate information and keeping detailed documentation, you will be much more likely to avoid triggering an IRS red flag. If you do receive a letter seeking clarification or additional documentation, it will likely include a request for payment of additional taxes, possibly with interest and penalties. The ball will be in your court to prove the IRS wrong.

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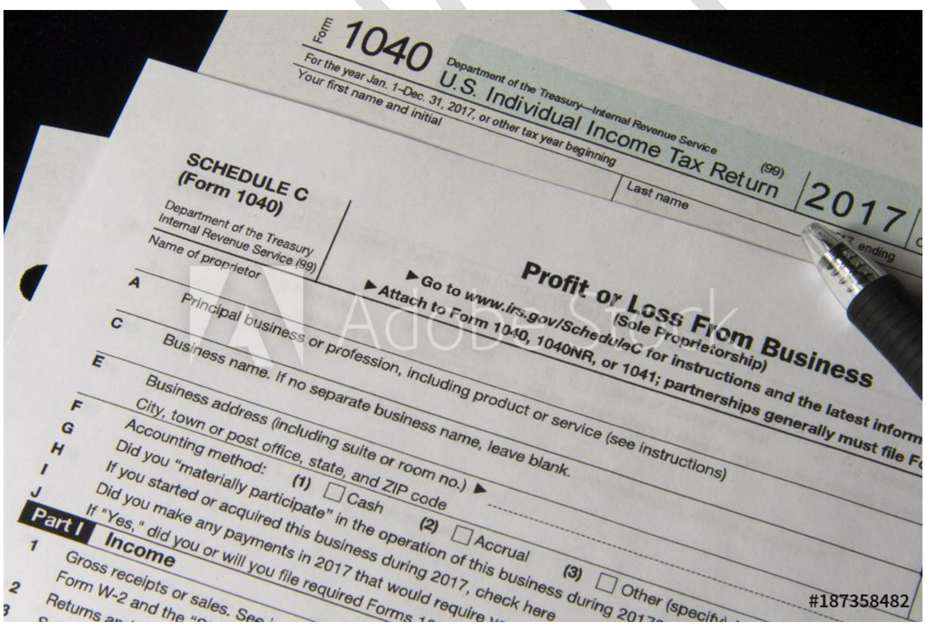

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