Retail Audits

If you are in the retail business, the following is a synopsis of what to expect during an audit of your business by the Internal Revenue Service.

Specific Audit Techniques

Initial Interview

The examiner will conduct an initial interview with you to gain a basic understanding of how the business operates. This is the examiner’s chance to learn exactly how the business works and how cash is handled. Some of the items the examiner will try to develop an understanding of during the initial interview are:

1. How you handle and account for the money in business operations.
2. How the inventories are valued and the method used. This is needed for calculations of markup and/or gross profit. Examiners will find out who actually takes the physical inventories and when they are performed. They will likely ask you for the work paper that calculates the inventory value.
3. How much cash is on-hand. This includes pocket money plus cash in a safe, safe deposit box or stored at home. With smaller companies, internal control procedures are often weak or non-existent. For this reason, there is a higher level of “control risk.” This higher level “control risk” can result in a material misstatement that may not be detected on a timely basis. Thus, the examiner will ask these questions to see if there is a risk of material misstatement to taxable income.
4. How much, if any, inventory is used for personal use. Since retailers often use business inventory for personal purposes, they will attempt to verify that the personal-use amount is properly accounted for and deducted from cost of goods sold or purchases.

This list is not all-inclusive and some of the questions may not be pertinent in all examinations. The initial interview will be tailored to each individual.

Information Document Request

Examiners may prepare an information document request (IDR) for you. Not all of the items below are requested in every case, but examiners will use this as a starting point to request the items that are appropriate and relevant for your specific case.

- All paid invoices for the year under examination, separated by vendor
- A listing of all purchases paid in cash
- Sales, Cash receipts, purchase, and general journal
• Adjustment entries to such items as Sales and Excise Taxes paid
• All daily cash register tapes (including the summary tapes called ‘Z’ tapes)
• All bank statements for the year under examination, including deposit slips and checks written
• Work papers supporting inventory valuation
• List of vendors who offer vendor allowances such as rebates
• Documentation of any non-taxable income

Books and Records

Due to the diversity of the industry and the types of business organizations, the examiner may request a variety of books and records. One item the examiner may request is a detailed record of sales and purchases. If this is not available, they may instead request invoices and cancelled checks to verify these amounts. Additionally, the examiner may ask you for one or more of the following:

Z Tapes - Most simple cash registers contain a “Z” key which can only be operated by the manager, owner or a key employee. The Z key totals the entire history of activity on the cash register for a period of time, providing a summary total for taxable sales, non-taxable sales, credit card sales, credit card tips, cash sales, lottery sales, coupons and discounts, etc. Each day’s Z tape is used to record the daily sales in the sale journal (if such records are kept). The examiner will compare these against the sales journal to ensure that all transactions are appropriately recorded.

Point Of Sale (POS) Records - This is a computerized accounting system that records sales along with related items, such as employee’s time and tips received, or reductions to inventory and calculations of profit on each sale. These machines can produce financial statements, periodic statements of profit and loss, profits per item, payroll checks, etc. The examiner may make a referral to an IRS computer examination specialist who will perform an audit test of the computer if the examiner thinks that the program you are using is not recording all sales appropriately.

Inventory Reports - If maintained. The retailer will usually take a physical inventory annually to determine if there is old merchandise that should be discounted for a quick sale. The examiner may ask you for this report to aid in determining if inventory is appropriately valued and recorded.

Cash Pay Outs – The primary focus of the examiner will likely be accounting for cash transactions. The examiner may request from you the daily cash paid out and cash taken in to make sure that all cash is appropriately accounted for.

Income Issues

The examiner will use the documentation above to ensure that all income is appropriately recorded. There is a risk of understatement of income for tax purposes (especially if a business is cash intensive). The standard comparisons noted above will be made on your records. If it is apparent from this
examination that all receipts of taxable income are appropriately recorded, the examination may be limited to this top level review. However, if the examiner suspects you are not appropriately recording cash items, a more in depth analysis of income may take place. Some of the methods the examiner may use when examining your business are listed below.

**Cash Records**

The examiner will ask you who collects cash, where the cash is kept, and who performs the daily reconciliation of cash to sales. The examiner will also want to know who is authorized to make purchases and pay vendors. A list of people making cash deposits may also be requested. The examiner’s purpose in these procedures is to find out from you how strong (or weak) your internal control structure is. A weak internal control structure serves as a signal to the examiner that there may be recording problems and cash unaccounted for.

In order to directly identify income, the examiner will likely ask you for an explanation of your accounting system. Accounting records from your system will also be requested. If you do not have a system capable of producing accounting records, the examiner may ask for cash register records if your cash register system is computerized.

One question you are very likely to get from an examiner is what percentage of sales is attributable to cash compared to credit or check payments. When the examiner analyzes specific bank deposits, the percentage can be compared and any discrepancies can be questioned.

Examiners are also taught to recognize that many tax preparers use bank statements to prepare the tax returns. The result is that tax preparers do not capture for tax purposes income that is not deposited in a bank account. For these reasons, the examiner will check for completeness of income using alternative methods to verify gross receipts.

**Specific Items Method of Determining Income**

Examiners prefer the specific items method over any indirect methods to verify receipts because there is direct evidence of taxable income. The specific items method relies on evidence gathered from source documents, rather than estimates. An example of this direct method is looking at “Z Tapes” to ensure that the amount per the tap matches the amount recorded in the books.

**Indirect Methods**

If your records are not available or are considered inadequate by the examiner (possibly as a result of weak internal controls identified), one or more of the following indirect methods of income verification is likely to be used.

- Bank deposit analysis
- Fully developed cash T method
- Source and application of funds
- Net worth method
- Percentage of markup method
- Unit and volume method

The following is a synopsis of the indirect methods. If any of these methods rely on estimates, the examiner will corroborate them using another method. When the examiner is tracing cash through a bank deposit analysis or using the source and application of funds method, several of the following may be noted by the examiner:

- Cash payouts may not be deposited, but the money used to make the cash purchases originated from sales. This is cash that would not be deposited into a bank account and must be added back to the bank deposit analysis.
- In a restaurant business, cash payment of employee credit card tips is money that is not deposited, but originated from sales. The examiner must add this cash back to the bank deposit analysis.
- Sales tax collected from customers for cash sales is money deposited that is not a source of income. In many states, the sales tax for restaurants and bars is higher than the sales tax for other retail businesses. Therefore, the examiner will not include this in any income calculations performed.
- Cash collected from vending machines is cash that needs to be deposited and included in gross receipts. If significant coin and currency deposits are not found on the deposit slips, the examiner may need to determine the amount of income from this source and add it to the bank deposit analysis.
- Credit card payments from credit card companies for sales will include deposits of employee tips plus the sales taxes plus the sale. Only the portion representing the sale is taxable.
- Loans from shareholders are a non-taxable source of cash. Proof of payment may be necessary to establish whether an item is a loan. However, examiners will make sure these amounts are not included in taxable income.
- Transfers between bank accounts are also non-taxable. Examiners will ask for supporting documentation verifying transfers between accounts so that these amounts can be excluded from taxable income.

The examiner may prefer to support an indirect method with other examination procedures. This may include inspecting the supply invoices to find the name of the company that prints the guest checks. This printing company can provide the number of guest checks purchased by the restaurant in a year. Analytical procedures can then be used by the examiner to project income based on the average amount of the guest check times the number of checks. Use of these types of analytics with the bank deposits method strengthens the accuracy of the predicted income value. Furthermore, large variances between these two methods may result in a more detailed examination.
Bank Deposit Analysis

A bank deposit analysis (BDA) is used to identify deposits that may be taxable, to determine if business expenses were paid from other sources and to determine if business and personal accounts were co-mingled. The deposited items will also show whether cash is deposited.

The bank deposit analysis method assumes that the business owner deposits all income in a bank account. However, examiners understand that cash-intensive businesses, such as a bar or restaurant, may not deposit all cash receipts with the bank. For that reason, the examiner will likely supplement the bank deposits analysis with another indirect method when auditing a bar or restaurant.

Non-taxable deposit sources will be reconciled by comparing the total deposit with the reported gross income. If your retail business is cash intensive and a significant amount of receipts are not deposited (particularly if there are many expenses paid with un-deposited cash per initial review of the expenditures), then the examiner will likely use a different method to prove your total income. This method is most often used by the examiner when the books of a retail establishment are not reliable, but it appears that an establishment is making periodic bank deposits and paying expenses by check.

In analyzing the bank deposits, the Service will separate cash, checks, cashier’s checks and wire transfers. It will then examine the source of each deposit and separate items subject to self-employment tax from those not subject to such tax. As much as possible, the Service will eliminate items reported on your tax return or items that come from nontaxable sources (for example, transfers and refinancing proceeds). The Service will also analyze expenditures. Your expenditures that cannot be traced to a nontaxable source or reported income are considered unreported income.

Source and Application or Cash T

Under this method, cash flows are compared to other known expenditures. This shows if there are excess expense items (applications) over income items (sources). If your expenses exceed income, the examiner will know that an understatement of taxable income exists. This method is utilized when your business and personal expenses can be verified.

Markup Method

This method reconstructs income based on the use of percentages or ratios for your type of retail business. For example, the examiner would determine the industry markup for your particular type and apply that markup percentage to the verified cost of goods amount.

Alternately, the examiner can use your own markup percentages. A ‘shelf test’ can be performed where the current sales prices can be compared to the cost of those items to determine the markup.
percentage of your items. However, this will only be used for retailers with a few types of purchases or only a few suppliers of goods, such as for a gasoline retailer.

This method is used for retailers that do not use bank accounts to deposit receipts, or for retailers that cannot verify total expenditures. Examiners are also taught to utilize this method when inventory records are unreliable.

Examiners are further instructed to consider the following when applying this method:

- Comparisons to situations that are similar to those under examination
- The availability of valid sources of information containing the necessary percentages and ratios
- Complexity of the product mix and the availability of valid percentages and ratios for each product
- Length of the period covered during the examination and the need to adjust the percentages and ratios to reflect those existing during the examination

Computations under this method will vary based on the type of retail establishment you operate.

**Computations in the Percentage of Markup Method**

Computations under this method depend on what type of retail establishment you operate. Below is one method used in many of the food and beverage retail settings. Other specific methods by industry are listed under the industry headings below.

**Net Worth Method**

This method measures the difference between your net worth (total assets less total liabilities) at the beginning and at the end of the year. An overall increase in net worth represents taxable income. Examiners are instructed to use this method when there is an entire business element missing. An example of this would be a retailer that does not report sales from an internet business, or a taxpayer that fails to report income from an illegal source. The net worth method can also be used to corroborate other methods of proof or to test the accuracy of reported taxable income.

**Analysis of Gross Receipts**

An examiner will likely perform the following before reviewing records for specific sources of receipts:

- **Analyze the duplicate deposit slips.** If your business is cash intensive, there should be frequent and significant cash deposits. The examiner will calculate the percentage of cash to checks or credit card payments.
- **Analyze the cash register tapes.** Cash registers print a daily total called ‘Z’ tapes. A month’s worth of Z-tapes will usually be entered into a spreadsheet or handwritten on a monthly sales sheet. The examiner will total the monthly sheets to compare with gross receipts on the tax return.
Typically they will do this using a sample month to verify the daily tape amounts were entered correctly.

**Analyze business cash pay outs.** They will also verify that the income was reported before it was paid out for business expenses.

**Sales taxes returns:** The gross sales reported to a state sales tax agency will generally match the gross receipts reported on the income tax return. Any differences will be reconciled by the examiner or included as under reported income. Examiners will also look to see if sales tax is included with total sales dollars. Sales tax should not be included in revenues and should be collected and paid over to the state or local government. The examiner will look for compliance in this regard.

**Sources of Receipts**

**Vendor Rebates and Allowances**

When vendors allow a retailer to purchase a product at discount or warehouse stores, the vendor may sometimes issue a rebate check to allow the purchase for less than the retail amount. There is no purchase invoice from the vendor in this transaction, since the purchase was made at another retail store. This type of rebate should appear as an income item. Income from rebates or credits is includible when received by a cash basis taxpayer, and when the right to receive it becomes fixed and certain by an accrual basis taxpayer. If not properly accounted for, the effect is an understatement of gross profit or an improper reflection of gross loss on the sale of merchandise.

The examiner should have you explain the various types of allowances and rebates that you negotiate and how you account for these allowances for book as well as for tax purposes. The examiner determines what accounts are used and reviews the accounting entries, determining how accounts are maintained. The examiner will then determine if amounts are recorded when earned or when paid, determine the magnitude of the rebates, determine how many vendors are involved, and secure a list of vendors that offer rebates to you.

Examiners consider interviewing buyers or other appropriate personnel who have first-hand knowledge of vendor allowances and rebates (in compliance with third party contact provisions). They may request vendor contracts or agreements as well as computation work papers. If appropriate, the examiner will consider a review of any significant allowances reported in the first months of the year to determine if, as of year-end, similar monies have been properly accrued or improperly deferred. All vendor accounts will be reviewed to determine if the entries relate in size and timeliness to information obtained.

**Target Profit Percentage**

A contractual relationship is typically established between the retailer and the vendor. The examiner will request evidence of this relationship by a formal contract or terms described in a letter, memo, or other less formal correspondence. Allowances will be reported as an adjustment to purchases or as income.
The key here is the association to the product purchased. In the case of a volume discount the rebate is directly associated to purchase, so inventory is discounted. In the case of advertising rebate, the amount is associated to sale of the product; therefore, the rebate is other income.

Some of the more common vendor allowances and rebates examiners will look for are as follows:

1. **Volume Discount**
   Discounts are received when the quantity in terms of items or dollars of purchases exceeds certain levels. Manufacturers often offer the retailer volume discounts in the form of prizes and awards.

2. **Advertising Allowance**
   This allowance also is based upon volume of purchases. The retailer generally does not have to submit advertising documentation or verification to receive this type of allowance, unlike cooperative advertising. It is not unusual for retailers to negotiate agreements to receive both types.

3. **Cooperative Advertising**
   In cooperative advertising, a portion of the advertising costs is borne by certain vendors in accordance with cooperative advertising offers of the vendors.

4. **Defective Merchandise**
   This allowance covers the cost of defective merchandise or the handling costs related to it.

5. **Markdown Participation**
   Reimbursements for all or a portion of product markdowns taken on a specific product.

6. **Shelving or Fixture Allowance**
   The vendor may either provide product shelving or money for the purchase of product shelving. The value (or money) is other income. If the shelving remains the property of the vendor there is no allowance involved.

7. **Slotting Allowance**
   The vendor may offer, or the retailer may demand, payment to secure an agreement for specific space.

8. **New Store Allowance**
   The vendor may offer free or reduced price merchandise, or non-inventory prize merchandise in conjunction with the opening of a new store.

9. **Free Merchandise**
   Vendors may have a promotion for a specific time period during which the Retailer may receive free merchandise, after purchasing similar merchandise.

10. **Handling Allowance**
    Retailers may receive funds from vendors to offset certain costs of handling merchandise.

11. **Holiday Allowance**
    Some vendors allow retailers to retain holiday merchandise, but reduce the following month’s billings by the remaining holiday inventory. The holiday inventory is then re-billed the following holiday season. This is done for all holidays, such as Christmas, Easter, Mother’s Day and even Halloween.
Deferred Income - Gift Certificates and Gift Cards

Gift certificates or gift cards are a large portion of retail business. The examiner may find income is deferred beyond the point where it should be reported. Unless you elect the deferral rules of Treas. Reg. section 1.451-5 or Rev. Proc. 2004-34, income from gift cards or gift certificates must be reported when received.

If you make an election to defer, the income from substantial advanced payments (any payment received pursuant to a certificate is a substantial advance payment under Treas. Reg. 1.451-5(c)(3)) must be reported at the earliest of:

1. the time the income is earned under the all events test;
2. the time the income is recognized under the taxpayer’s accounting system, including consolidated financial statements to the shareholders or reports for credit purposes; or the last day of the second taxable year following the year of receipt of a substantial advance payment.

Under the same Treas. Reg., deferral of income is considered a method of accounting and approval of the Commissioner is required to switch to it.

Examiners are trained to realize that the risk is deferral beyond the second year following the receipt of cash. This might occur due to poor recordkeeping where no tracking of the outstanding gift certificates is made.

Gift Certificate - Deferred Income - Balance Sheet Liabilities

In addition to requesting an explanation or written documentation of your certificate issuance and record keeping procedures, the examiner may request samples of the certificates. They will do this to determine how long the certificates have been outstanding. They will look for internal controls to prevent employees from abusing the certificates and to prevent counterfeiting.

Other Retail Income Sources

Income from Service-Related Activities

Examiners will attempt to find under reported income from other related activities. This may include you providing a tour of the facility, or telephoning the sales location and asking what services are available. Accounts will be examined to determine whether income from service departments exists and, if so, how income and expense is booked.

Promotional Allowances
Promotional allowances are sometimes received before the criteria for earning them has been met. The examiner will apply the all-events test before permitting a deferral of income because you may only defer the unearned portion. This test examines your records for potential unreported income.

**Prizes and Trips**

Prizes and/or trips from vendors or manufacturers are received in the retail industry. Examiners realize that these items fall outside normal data entry items, and thus are easily omitted from income. Free merchandise received from vendors as part of promotions is also subject to omission for this reason. It is often the case in the industry that these items are run through cost of sales if they are recorded. The examiner may conduct interviews with you and key individuals within the business regarding trips taken, prizes won, meetings attended, etc.

**Consignments**

Consignments of merchandise to others to sell are not sales. It does not matter who holds possession of the merchandise. Merchandise that has been shipped out on consignment is included in the consignor’s inventory until it is sold.

Merchandise that is received by another retailer on consignment is likewise not included in your inventory. The profit or commission on merchandise consigned is included in your income when the merchandise is sold. Therefore, include in inventory goods out on consignment; do not include in inventory goods received on consignment.

The examiner will often ask you about items on consignment at another location to help ensure that you are recording sales of these items in income. Furthermore, the examiner will want to determine if you are inflating cost of sales with items that should not be accounted for in your inventory.

**Lottery**

Most state lotteries provide monthly activity reports to account for a retailer’s lottery sales, commissions and bonuses. If you are a calendar year taxpayer, the Form 1099 issued by the State Commission will be reconciled to the lottery income reported during an audit examination.

**Vending Machines**

The examiner must determine how you account for the income received from vending machines, if you have them at your establishment. They will determine if you have a contract that allows you a percentage of the receipts of the machine or if you are renting space to the vendor for placement of the machine.
If you actually own a vending machine, the examiner will likely inspect the records for coin currency by looking at coins being deposited. Indirect income methods discussed above may be employed if the currency deposits on your bank statement records is lower than anticipated.

**Bartering**

The examiner is also required to determine if bartering exists and if so, to determine if the value of bartered goods is properly recorded in income.

**Cost of Goods Sold**

**Retail Inventory**

According to the Internal Revenue Manual, a minimum inventory examination is always required for retail audits because the cost of goods sold will be one of the largest expense dollar items on your tax return. The two major components of Cost of Goods Sold are inventory and purchases. Inventories are usually the most significant asset. For this reason, an adjustment to cost of goods sold can be significant. Examiners will review the accounting method for recording all inventory inputs, including sales, purchases, markdowns, and so on, at their retail values to verify that purchased items are recorded at cost.

**Personal Consumption of Inventory**

As noted in the initial interview questions above, the examiner will likely interview you about your personal consumption of business inventory. Examiners are trained to examine for different methods in which retail owners account for inventory. These include: (1) paying for their own inventory by writing personal checks, (2) accounting for their personal use by making adjusting entries in their books and records, (3) treating the amounts as "loans" to them from the business, (4) providing inventory as a "fringe benefit,"(5) considering them additional wages at the end of the year, or (6) not accounting for their personal use at all.

If you tell the examiner that you paid for inventory with a personal check, the examiner will verify the checks from your personal bank account. If you made adjusting journal entries, the examiner will verify the entries in the accounting books and records to make sure the adjustments are appropriately reflected. The loan method will be examined if used to make sure that the loans are legitimate. For example, the examiner will look to see if interest is being accrued on the books for a personal consumption loan.

If you are treating the amounts as fringe benefits, the examiner will verify that these amounts are added to the wages at the end of the year. In completing this verification, the examiner will likely verify the payment plan you used for payment of personal retailer consumption. In determining the amount of inventory which is accounted for under any method, the examiner is trained to note that there may be
employment tax considerations which may need to be addressed for personal consumption. This is especially true if your retail store operates as a corporation.

**Purchases**

The Internal Revenue Manual requires an examination of each element of Cost of Goods Sold. Thus, the examiner will select a sample period and likely conduct the following tests on purchases:

- Examine for nondeductible expenditures in purchases.
- Scan the account for vendors not associated with the products or services handled by the taxpayer. An example of this would be a convenience store with bedroom furniture purchases running through COGS.
- Examine for an absence of personal expenditures if the industry is a retail outlet where personal expenditures are expected on a personal return. For example, if the taxpayer’s business is a retail grocery store, and no payments are made from the personal account for food purchases, the examiner will likely consider personal withdrawals to the recipient.
- Examine the account for unusual payees and amounts.
- Test the purchases for a sample period with vendor’s invoices and cancelled checks to verify the expense to cost of sales for sold inventory.

**Expenses**

In addition to the personal consumption issue, the examiner will review other expense accounts for personal items, including but not limited to, office expense, supplies, travel, meals, entertainment, vehicle, dues, etc. A scan of the general ledgers for these accounts will be conducted to ensure that you are only deducting appropriate items on your income tax return.

**Franchise Fees**

A deduction by the franchisee of franchise payments as a business expense is only allowed if the payments are part of a series of payments that are payable not less frequently than annually over the term of the agreement and are either equal in amount or payable under a fixed formula. Other amounts paid or incurred on account of a transfer, sale, or other disposition of a franchise must be capitalized and amortized over the useful life of the franchise, trademark or trade name. Therefore, the examiner will likely review these types of accounts and ask questions to ensure that you are taking an appropriate deduction up front rather than recapturing a capitalized cost through amortization.

**Cooperative Advertising**

Manufacturers sometimes pay a percentage of the cost of ads placed by the retailer. You must either (1) recognize the amount that will be reimbursed as income and take the full amount paid as advertising or (2) accrue the payment from the manufacturer at the time the “tearsheet” is mailed to the
manufacturer. Examiners frequently notice retailers accounting for these types of payments on a cash basis and are trained to examine your books to ensure that any appropriate adjustments are made in this area.

Charitable Contributions and Promotions

If you give money, inventory, and other donations to charitable organizations to promote your store's image and goodwill in the community, you may be able to deduct this as an advertising expense. In other instances a retail business that purchased stock for holidays may discount the items after the holiday. Often, when holiday merchandise is still unsold after a second discount, retailers will donate the holiday merchandise to a charity.

Generally the amount of a charitable deduction is the fair market value of the item contributed, reduced by the amount of ordinary income you would have recognized if the item were sold (or, in other words, your basis in the item). Examiners will likely look at charitable contributions to ensure that you are appropriately accounting for these items because an overstatement of this amount will result in lower taxable income.

Grocery chains may also have donations that include day-old bakery items, dented cans of food, old produce and other outdated items to food pantries and other charitable organizations. If you are a grocery retail organization, the examiner will look to identify the food being donated and to verify the contribution was actually made to an organization. Verification of food donations is important to an examiner because these may be taken out of inventory without the appropriate write-off. Some retailers expense this at year-end, in addition to being written off as a charitable deduction, promotion expense, or food spoilage. Examiners are trained to understand that food being written off in this way is also used to disguise personal groceries. Therefore, examiners will look to make sure not only that you made the deduction but also that the deduction is allowable.

Accruals

Examiners will inspect your end-of-year accruals to verify you have complied with proper cutoff assertions. This is done to ensure that you do not inflate expenses for income tax purposes as this will result in an understatement of taxable income. To test this, examiners will likely request invoices or payroll records to ensure that the expenses belong in the accounting period for the tax year you have recorded them in.

Depreciation and Cost Segregation

Buildings that you own can be depreciated under the Modified Accelerated Cost Recovery System (MACRS) for 39 years. Some elements of buildings can be separated and identified as tangible personal property. This practice is called cost segregation, which allows recovery of the personal property elements of a building over a five-year period using the 200-percent declining balance method. The
personal property elements qualify for IRC section 179 expense deductions and bonus depreciation under IRC section 168(k). This separate valuation of real and personal property can also reduce state and local taxes imposed on real property. Examiners will verify that these amounts are appropriately deducted for tax purposes by examining what is considered personal versus real property. They will ensure that your classifications are correct under the code.

**Employment Tax Issues/Information Returns**

Examiners have been trained to spot employment tax issues within a retail business. They will consider whether any fringe benefits you provide are taxable to the recipients. They will also consider whether contract labor is appropriately classified for tax purposes. If the payments are, in fact, to independent contractors examiners will verify that you filed Form 1099.

Examiners will also be looking for cash paid to employees and cash paid to vendors. They will verify that any cash you paid to employees has had employment taxes paid on it. Additionally, they may request the 1099 Forms for any vendors paid by cash. Examiners will also perform an additional procedure for restaurant retail businesses to make sure that employees are reporting tips received at least monthly to the employer for tax purposes.

**Brown, PC represents clients in retail businesses throughout Texas and across the United States. If you have questions regarding an IRS Audit, please call 888-870-0025 or contact us online for a confidential consultation.**