

## Recording The source For All Deposits In Your Check Register

*If you follow my advice, you will certainly make any IRS audit less painful and make your life less taxing.*

by **Sandy Botkin**

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Too many times people have said at my seminars that they are worried about an audit because they do not want the receipts for the documentation taken. Unfortunately, there is more to an audit than worrying about documentation for deductions. They need to worry about the income side as well.

***IRS has recently instituted an extra type of audit procedure. Regardless of the type of audit, IRS now asks for all bank records and money market accounts for the year or years covering the audit.***

At first blush, this may seem strange. If you were being audited for your automobile or travel expenses, why would IRS want to see your yearly bank records? The answer is that IRS is now checking all taxpayers for unreported income.

IRS will match all deposits made into your bank accounts and compare the totals to your reported income. If the deposits exceed what you reported as income, you'd better have a great explanation or IRS will hit you with "unreported income" on the difference.

You might be thinking, "wait a minute, not every deposit is taxable." This is quite true. Gifts and inheritances are tax-free. Reimbursements from insurance companies and by employers for business expenses where a proper accounting was made are also tax-free. Most municipal bond interest is tax-free. I had a student who could never balance his bank account. His idea of balancing an account was to close out one account every six months and open up another one. I hope this doesn't apply to you! None of these items mentioned are taxable. However, unless you can clearly demonstrate that the deposits came from a tax-exempt source, IRS will construe your deposits as unreported income.

It is now necessary that you record and identify the sources of all deposits in your check register. For example, if you receive a deposit as a commission checks from X Company, the check register would read," commission check from X company." If you were to receive a tax-free reimbursement from your health insurance company, the check register would read," reimbursement from X health insurance company."

Finally, for all non-taxable items, make a copy of the check that you received, and put it in a yearly file.

***Thus if you receive a reimbursement from your employer for business expenses that you gave an accounting for, you should copy the check.***

If you follow my advice, you will certainly make any IRS audit less painful and make your life less taxing.

*This tax tip came from Sandy Botkin's Tax Strategies for Business Professionals and his Tax Advantage System. For more detail or to order either Tax systems or audit proof diary, call 301-972-3600.*



**Sandy Botkin** is a CPA, attorney and former trainer of IRS attorneys nationwide. Sandy's book, *Lower Your Taxes Big Time!*, is the best-selling tax book at Amazon.com. He lectures all over the nation on tax planning for self-employed and corporate taxpayers... he's been written up in Newsweek and many other magazines. He is also a syndicated writer and noted author

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