

BEWARE OF IRS REQUEST FOR ACCOUNTING SOFTWARE FILES

The Internal Revenue Service (IRS) is requesting accounting software files from small business taxpayers that are under examination. The accounting software files include Quickbooks and Peachtree. IRS already receives data in electronic format when it audits large business taxpayers. Unfortunately, the electronic data received from large businesses is not the same as the electronic data requested of small business taxpayers. The data IRS receives from its large business taxpayers has already been filtered to exclude information not relevant to the examination. In many cases, the accounting software files of a small business will include information not relevant to the examination and for years outside the scope of the examination.

The IRS prefers to receive the accounting records in electronic format to allow them to analyze the data more quickly through computer analysis and to speed up the examination process. In addition, the IRS stated in a letter dated April 20, 2011, that the information requested is "directly relevant to the evaluation of the taxpayer's internal controls". Since the IRS recently started requesting the electronic version of accounting software files, it is too early to tell if the IRS is achieving its desired results.

The AICPA is actively involved with the IRS to provide the appropriate data to complete the examination in an efficient manner. At the same time, the AICPA is working with accounting software providers to improve the file backup process.

We suggest that at the end of every year you record our year end adjusting journal entries and then back up your files. The back up file will then be available for the IRS to review. However, this approach will not eliminate the concern of the file including information not relevant to the examination.

If you receive an IRS document request asking for the accounting software files, please contact us immediately. We may be able to work with the IRS agent and the accounting software vendor to minimize the amount of electronic data provided.

Click below for Response Letters: AICPA letter dated March 29, 2011 and the IRS response letter dated April 20, 2011.

AICPA letter:

http://aicpa.org/InterestAreas/Tax/Resources/IRSPracticeProcedure/DownloadableDocuments/software_letter.pdf

IRS response letter:

http://aicpa.org/InterestAreas/Tax/Resources/IRSPracticeProcedure/DownloadableDocuments/IRS_Letter.pdf