



What the IRS Thinks About the Print Industry

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Do you ever wonder when your company will be selected for an Internal Revenue Service (IRS) audit? It may be sooner rather than later, as recent trends are to increase audit efforts of small businesses. When your time comes, wouldn't it be nice to know the IRS audit agenda? You are in luck, because the IRS has a published audit guide for the commercial printing industry, part of its Market Segment Specialization Program.

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The better educated you are on all dimensions of an IRS audit, the better prepared you will be to deal with the issues. The purpose of the IRS audit guide is to afford the examiner an opportunity to gain a better understanding of the commercial printing industry, and have a tool at his or her disposal to better focus on the printing processes and the accounting records associated with your business. Think of it as Cliff Notes or a glorified cheat sheet.

The IRS audit guide explains business practices such as: quotation, orders, experimental work, creative work, accuracy of specs, preparatory materials, electronic manuscript or image, alterations / corrections, prepress proofs, press proofs, color proofing, overruns or under-runs, customer's property, delivery, production schedules, customer-furnished materials, outside purchases, terms / claim / liens, liability, storage, taxes, and telecommunications. In addition, the
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guide discusses the background behind basic industry operations such as: estimating costs and pricing, traditional and current prepress methods, press operations, postpress, and traditional printing processes.

The guide also looks at accounting systems and records flow, including estimating / quotation, job tracking, scheduling, inventory control, work-in-process, finished goods inventory, job ticket and production forms, cost centers, real-time data collection, invoicing, accounts receivables, accounts payables, purchasing, general ledger, financials, payroll, bank reconciliations, and shipping / lading.

In addition, the guide identifies issues that printers should be aware of. In the industry, officer's compensation was found to be an area of noncompliance. Even though two of the main trade associations, National Association for Printing Leadership and Printing industries of America/Graphic Arts Technical Foundation, publish executive salary surveys, most printers did not base their salaries on the surveys. As a result, the IRS will test the executive compensation for reasonableness. If

the IRS challenges the executive compensation, it may treat a portion of it as excessive compensation. Excessive compensation is a facts and circumstances adjustment. The adjustment must be based on more than just the fact that an officer is paid more than an amount listed in the surveys.

Because printing firms are capital intensive, the IRS will most likely perform a careful examination of items purchased to determine whether or not these items are really capital items subject to depreciation or period expenses. They will hone in on repairs and emolument expense.

Finally, there are exhibits in the back of the IRS guide. One exhibit lists interview questions for the commercial printing industry to aid the IRS agent in conducting the examination. Advance preparation for adequately responding to these questions may prove invaluable. The questions address the following topics: background information, accounting records, sales and revenue, purchases, inventory, fixed assets, and environmental issues. Another exhibit references the applicable law for method of accounting.

The above-mentioned material is not all-inclusive of what is available in the guide, but merely guidelines to assist you in the event of an IRS audit. Be informed and good luck.

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