

The information provided here is for informational and educational purposes and current as of the date of publication. The information is not a substitute for legal advice and does not necessarily reflect the opinion or policy position of the Municipal Association of South Carolina.

Consult your attorney for advice concerning specific situations.




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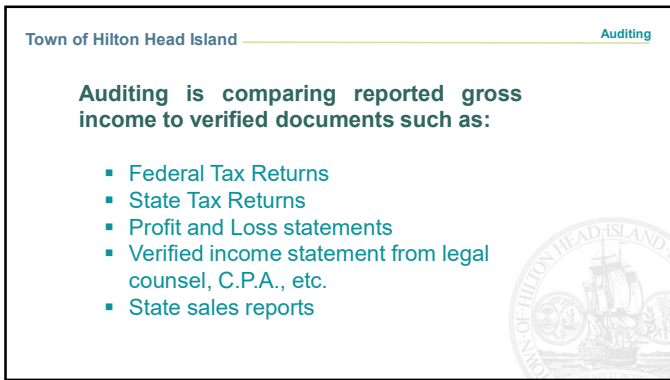
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Town of Hilton Head Island Auditing


**Direct Mail vs Email**

The response time for direct mail versus email is up to 9 times higher

Direct mail requires 21% less cognitive effort to process than email.

Up to 90% of direct mail gets opened, compared to only 20-30% of emails.

Don't forget certified mail!




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**Expect a response within an hour.** Thanks to portable electronic devices, about 50% of replies are sent in fewer than 60 minutes.

**After 48 hours days, there's little chance of a response.** There's a 90% likelihood that you'll get a response within a day or two if the recipient is going to reply.

**Older adults take the longest.** People over age 50 take an average of 47 minutes to reply, but they tend to write longer messages compared to their younger counterparts.

**Gender plays a small role.** A response from a woman may take about four minutes longer than a response from a man.




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Town of Hilton Head Island Auditing

**What is your criteria?**

- Past years' reported gross (significant drop in income or reporting exact same amounts)
- Similar businesses' reported gross income
- Random records
- A specific classification or NAICS code
- 3<sup>rd</sup> year businesses
- Minimum business license




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Town of Hilton Head Island

Auditing

**SCHEDULE C**  
**Form 1040** **Profit or Loss From Business** (sole proprietorship)  
OMB No. 1545-0045  
2012  
12  
2012  
12  
2012  
12

Department of the Treasury  
Internal Revenue Service (IRS)  
▶ For information on Schedule C and its instructions, go to [www.irs.gov/schedulec](http://www.irs.gov/schedulec).  
▶ Attach to Form 1040, 1040-E, or 1041; partnerships generally must file Form 1065.

Name of proprietor: \_\_\_\_\_ Social security number (SSN): \_\_\_\_\_

**A** Principal business or profession, including product or service (see instructions): \_\_\_\_\_  
**B** Enter code from instructions: \_\_\_\_\_  
**C** Business name, if no separate business name, leave blank: \_\_\_\_\_  
**D** Employer ID number (EIN) (see instructions): \_\_\_\_\_

**E** Business address (including suite or room no.): \_\_\_\_\_  
City, town or great office, state, and ZIP code: \_\_\_\_\_

**F** Accounting method: (1)  Cash (2)  Accrual (3)  Other specify: \_\_\_\_\_

**G** Did you "materially participate" in the operation of the business during 2012? If "no," see instructions for limit on losses:  Yes  No  
**H** If you started or acquired the business during 2012, check here:  
**I** Did you make any payments in 2012 that would require you to file Form 1099? (see instructions)  Yes  No  
**J** "Yes" only if you or all you file the required Forms 1099:  Yes  No

**Part I Income**

1	Gross receipts or sales. See instructions for line 1 and check the box if this business was a sole proprietorship	1
2	Returns and allowances (see instructions)	2
3	Subtract line 2 from line 1	3
4	Cost of goods sold (attach Form 1125-A)	4
5	Gross profit. Subtract line 4 from line 3	5
6	Other income, including interest and state payments or fuel tax credit or refund (see instructions)	6
7	<b>Gross income.</b> Add lines 5 and 6	7

**Part II Expenses** Enter expenses for business use of your home only on line 28.

8	Advertising	8	18	Office expense (see instructions)	18
9	Car and truck expense (see instructions)	9	19	Person and profit-sharing plans	19

Sole Proprietorship: Barber, Nail technician, etc.



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Town of Hilton Head Island

Auditing

**Form 1065** **U.S. Return of Partnership Income** (sole proprietorship)  
OMB No. 1545-0029  
2012  
12  
2012  
12

Department of the Treasury  
Internal Revenue Service (IRS)  
▶ For calendar year 2012 or for year beginning 2012, ending 2012. Information about Form 1065 and its separate instructions is at [www.irs.gov/form1065](http://www.irs.gov/form1065).

**A** Principal business activity: \_\_\_\_\_ Name of partnership: \_\_\_\_\_  
**B** Principal product or service: \_\_\_\_\_  
**C** Business code number: \_\_\_\_\_  
**D** Employer identification number: \_\_\_\_\_

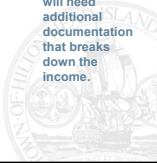
**G** Check applicable boxes: (1)  Initial return (2)  Final return (3)  Name change (4)  Address change (5)  Amended return  
**H** Check accounting method: (1)  Cash (2)  Accrual (3)  Other (specify): \_\_\_\_\_  
**I** Number of Schedules K-1. Attach one for each partner who was a partner at any time during the tax year: \_\_\_\_\_  
**J** Check if Schedules C and M-1 are attached:

**Caution:** Include only trade or business income and expenses on lines 7a through 22 below. See the instructions for more information.

**Income**

7a	Gross receipts or sales	7a
7b	Returns and allowances	7b
8	Balance. Subtract line 7b from line 7a	8
9	Cost of goods sold (attach Form 1125-A)	9
10	Gross profit. Subtract line 9 from line 8	10
11	Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)	11
12	Net gain or loss from Form 4797, Part II, line 17 (attach Form 4797)	12
13	Other income (loss) (attach statement)	13
14	<b>Total income (loss).</b> Combine lines 10 through 13	14
15	Capital and wages (other than to partners) (add employment credits)	15

Partnership-if income is consolidated for multiple locations, you will need additional documentation that breaks down the income.



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**Form 1120** **U.S. Corporation Income Tax Return** (S corporation)  
OMB No. 1545-0123  
2012  
12  
2012  
12

Department of the Treasury  
Internal Revenue Service (IRS)  
▶ For calendar year 2012 or for year beginning 2012, ending 2012. Information about Form 1120 and its separate instructions is at [www.irs.gov/form1120](http://www.irs.gov/form1120).

**A** Check the type of corporation:  
**1**  S corporation (attach Form 9700)  
**2**  Other (attach Form 9700)  
**3**  Partnership (attach Form 9700)  
**4**  Trust (attach Form 9700)  
**5**  Estate (attach Form 9700)  
**6**  Other (attach Form 9700)

**B** Check the type of corporation:  
**1**  S corporation (attach Form 9700)  
**2**  Other (attach Form 9700)  
**3**  Partnership (attach Form 9700)  
**4**  Trust (attach Form 9700)  
**5**  Estate (attach Form 9700)  
**6**  Other (attach Form 9700)

**C** Date incorporated: \_\_\_\_\_  
**D** Total assets (see instructions): \_\_\_\_\_

**E** Check the type of corporation:  
**1**  S corporation (attach Form 9700)  
**2**  Other (attach Form 9700)  
**3**  Partnership (attach Form 9700)  
**4**  Trust (attach Form 9700)  
**5**  Estate (attach Form 9700)  
**6**  Other (attach Form 9700)

**Income**

1a	Gross receipts or sales	1a
1b	Returns and allowances	1b
2	Balance. Subtract line 1b from line 1a	2
3	Cost of goods sold (attach Form 1125-A)	3
4	Gross profit. Subtract line 3 from line 2	4
5	Dividends (Schedule C, line 19)	5
6	Interest	6
7	Gross rents	7
8	Gross royalties	8
9	Capital gain net income (attach Schedule D (Form 1120))	9
10	Net gain or loss from Form 4797, Part II, line 17 (attach Form 4797)	10
11	Other income (see instructions—attach statements)	11
12	<b>Total income.</b> Add lines 4 through 11	12
13	Compensation of officers (see instructions—attach Forms 1125-E)	13
14	Salaries and wages (less employment credits)	14
15	Repairs and maintenance	15

Corporation -if income is consolidated from multiple locations, you will need additional documentation that breaks it down

S Corp will be on Form 1120 S



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### Think outside the box!!

- Appointment Books
- Gross Income Averages for similar businesses
- Property Management reports
- Bank statements
- Daily cash receipt documents




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What if it isn't adding up???

### Ask questions!!!

- Look for non-food sales (T-shirts, mugs, collectible glasses)
- Check for activity that may require an additional license




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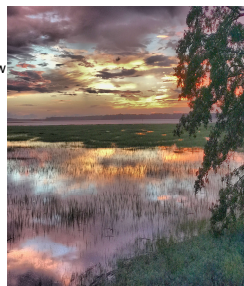
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Now What?

### FOLLOW UP!!!!

- Track your time & costs if you plan to bill for audits that show evidence of false reporting.
- Update business/contact information records as needed.
- Ensure that the appropriate class/ NAICS code and rate schedule are being used.
- Check for activity that may require a second license.
- Use this opportunity to build good relationships with businesses: be kind, willing to listen, and firm regarding fair and equal enforcement of the rules.




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