BEFORE THE IRS ASKS

RETURN Readiness Checklist

A practical companion resource to the RETURN Framework

How to use this checklist

- Review each item with the appropriate records and a qualified professional.

- Mark Yes, Needs Review, No, or Not Applicable.

- Give every Needs Review or No response an owner, deadline, and documented disposition.

- Use the final page to identify the five matters that deserve attention first.

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This checklist is educational and does not provide tax or legal advice, calculate an official IRS score, predict an examination, or replace advice based on complete facts.

Reader resources: https://www.beforetheirsasks.com/

HTML checklist: https://www.beforetheirsasks.com/checklist

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R — Reconcile Reported Income

Connect the return to books, banks, processors, information documents, and operational records.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. All active and inactive entities are identified.				
2. Every account and payment channel receiving business funds is listed.				
3. Gross receipts reconcile among operational records, books, banks, processors, information documents, and the return.				
4. Gross-versus-net processor reporting is understood.				
5. Forms W-2, 1099, K-1, 1099-K, and other information documents map to the correct taxpayer and return location.				
6. Loans, contributions, transfers, refunds, and asset-sale proceeds are documented separately from income.				
7. Deposits, retainers, refunds, chargebacks, receivables, and cutoff items follow the accounting method.				
8. Related-entity revenue and expense amounts reconcile on both sides.				
9. Sales-tax, payroll, inventory, and other operational reports agree with revenue or have a documented explanation.				
10. Unknown deposits and manual revenue entries are resolved.				

Notes / evidence needed:

E — Evaluate Unusual Expenses

Look beyond the ledger label to understand purpose, timing, ownership, evidence, and tax treatment.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. The largest expense accounts and transactions were reviewed.				
2. The largest year-over-year changes have written variance explanations.				
3. Vague accounts were separated by vendor, project, purpose, and proposed treatment.				
4. Personal, mixed-use, owner, family, and related-party items were identified.				
5. Travel, meals, vehicles, gifts, and other documentation-sensitive expenses have appropriate support.				
6. Property projects were reviewed for repair, improvement, disposition, and capitalization issues.				
7. Acquisition, startup, financing, software, legal, and transaction costs received appropriate analysis.				
8. Round-dollar, year-end, suspense, and manual journal entries were reviewed.				
9. Each material exception has a written conclusion or escalation.				
10. Permanent process corrections were identified where the same issue could recur.				

Notes / evidence needed:

T — Test Ratios and Trends

Use comparisons to find questions that deserve explanation, evidence, or professional judgment.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. Current results were compared with at least three prior years where available.				
2. Actual results were compared with budget, forecast, or management expectations.				
3. Gross-margin and cost-of-sales changes are understood.				
4. Payroll and contract-labor relationships are understood.				
5. Officer wages, owner distributions, and services were compared.				
6. Interest expense agrees with debt activity.				
7. Repairs and depreciation agree with property activity.				
8. Taxable income, operating cash flow, debt, and owner withdrawals were compared.				
9. External benchmarks use a relevant population and are not treated as legal safe harbors.				
10. Each material variance is classified as understood, evidence needed, technical review needed, or advisory follow-up.				

Notes / evidence needed:

U — Understand Owner Transactions

Separate wages, distributions, draws, loans, reimbursements, contributions, and personal activity.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. Ownership percentages and tax classifications are current.				
2. Wages, benefits, distributions, draws, and contributions are reconciled.				
3. Loans in both directions have funding evidence, terms, payment history, and analysis of actual conduct.				
4. Reimbursements identify amount, date, purpose, evidence, and excess-advance treatment.				
5. Personal costs paid by the company are classified and resolved.				
6. Company costs paid by owners are recorded and reimbursed or otherwise treated appropriately.				
7. Rent, interest, royalties, management fees, guarantees, and related-party payments agree on both sides.				
8. S corporation stock and debt basis or partnership capital and basis records are updated as applicable.				
9. Transaction dates and sequence are preserved where consequences depend on timing.				
10. The owner reviewed the detailed rollforward and disclosed outside transactions.				

Notes / evidence needed:

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R — Review Records and Support

Connect each material position to the facts, evidence, authority, workpaper, and reviewer decision.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. Each material position identifies the facts the applicable rule requires.				
2. Transaction, purpose, and tax-treatment evidence are available.				
3. The file links the return, workpaper, books, ledger, source, purpose, authority, and reviewer decision.				
4. Records are relevant, reliable, complete, and consistent.				
5. Contradictory evidence is preserved and resolved.				
6. Oral representations are documented with date, participants, questions, and limitations.				
7. Missing evidence has an alternate-evidence or filing-treatment decision.				
8. Files use company-controlled storage, standard names, access restrictions, and backup.				
9. Permanent records are separated from annual files and connected where needed.				
10. Retention periods were considered for the specific position.				

Notes / evidence needed:

N — Normalize the Business System

Correct the recurring process that created the problem instead of waiting for another year-end cleanup.

Status key: Yes = complete | Needs Review = unresolved question or evidence gap | No = not completed | N/A = not applicable

Review item	Yes	Needs Review	No	N/A
1. Each recurring finding has a documented root cause.				
2. Immediate corrections are separated from permanent controls.				
3. Preventive and detective controls are proportionate to the issue.				
4. Every control has one accountable role, deadline, and completion evidence.				
5. Material controls have retest dates.				
6. Monthly close includes revenue, banks, cards, payroll, contractors, fixed assets, owner activity, and unusual accounts.				
7. Major transactions trigger advice before signing.				
8. Repeat findings and senior-review time are monitored.				
9. Staff and client training were updated based on findings.				
10. Reviewer decisions improve future review procedures and checklists.				

Notes / evidence needed:

Overall Readiness and Next Actions

Select the description that best fits the current review:

Readiness level	What it means
[ ] Strong	Material items reconcile, treatment is supported, and recurring controls operate.
[ ] Generally Ready	Minor low-impact gaps remain with owners and dates.
[ ] Needs Attention	Material explanations, evidence, or classifications remain incomplete.
[ ] High Concern	A significant inconsistency, unsupported treatment, or recurring control failure requires prompt professional review.
[ ] Immediate Professional Review	Possible omitted income, missed filing, payroll, foreign reporting, fraud indicators, or another serious matter requires escalation.

Five priority matters

#	Issue / evidence needed	Owner	Deadline
1			
2			
3			
4			
5			

Professional disposition

[ ] Accepted [ ] Corrected [ ] Additional evidence requested [ ] Escalated [ ] Separate engagement required

Reviewer: ____

Date: ____

Follow-up date: ____

Continue the framework

Read Before the IRS Asks for examples, source notes, professional boundaries, and implementation tools. Access the official reader-resource page at www.beforetheirsasks.com.

Educational material only. This checklist does not create a professional relationship or replace advice from qualified tax, legal, accounting, or other advisers who know the complete facts.