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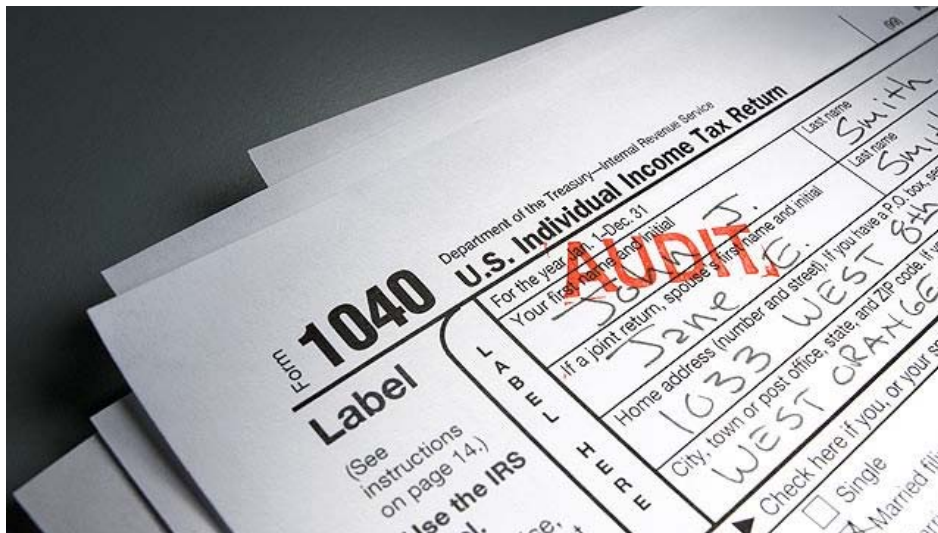
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Know IRS Audit Risks Before Filing Your Taxes

When you file your taxes, how likely is your return to be flagged for audit? Did you account for every W-2 and Form 1099, use correct math, and match all other data? Did you report big losses or deduct other unusual items? There are many [ways to try to audit proof your tax return](#), and always [more ways](#), some of it is luck. And knowing about IRS traps helps.

For example, certain [tax mistakes allow the IRS to audit you forever](#). But here is some good news amid all this scary news, and ironically, it ties into controversies at the IRS. With budget cuts and the resources the IRS must now devote to Obamacare, the IRS has less time and money to audit. Taxpayers are not disappointed.

If you have a high income, you are *especially* better off, since audit rates at upper income levels have dropped significantly. Most audits must happen within 3 years, or six in some cases. But eventually, you know you're in the clear. Until then, you might be on edge about having to defend your return.



Fortunately, there is now a [6-year low](#) in audits of high income taxpayers. By 'audit rate' we simply mean the percentage of individuals' tax returns the IRS examines. The examination may be in person or via correspondence, but these days, correspondence is more common. Back in 2011, audit rates for most returns were small.

You stood about a 1 in 90 chance of an audit. But if your income was over \$1 million in 2011, you stood a 1 in 8 chance of audit. But now, that high income audit rate dropped down to a 1 in 13 chance. The trend is noteworthy since audit rates rose steadily from 2005-10. But since then, the number of individual audits fell 21.4% for the next five years.

Of course, no one wants to be noticed by the IRS, much less audited. There are many old wives' tales about what triggers an audit. The size of your income is only one factor. Your deductions matter, your tax credits, and even which specific items you claim. But does mere *wealth* trigger an audit?

The IRS's [Global High Wealth Industry Group](#)—sometimes also known as the Rich Squad—has been around since 2009. Audits can start with a plain old Form 1040 but can expand into gifts, charitable issues and excise taxes. A high-net-worth person can expect a [holistic approach](#). All entities connected to the taxpayer are up for grabs, including family companies.

The fact that the Rich Squad is part of the IRS's [Large Business and International Division](#) says a lot. They are adept at dealing with complex business and investment structures used by wealthy people. Rich Squad audits take into account the [range of assets and entities in a family group](#). Trained to ferret out data from large and sophisticated businesses, the IRS has turned these big guns on individuals.

That means the IRS may want documentation for virtually everything. It could overwhelm even well-advised taxpayers. Families (even wealthy ones) don't have big tax staffs the way major corporations do. The Rich Squad is not dealing primarily with those who simply have high income on their [Form 1040](#). The focus is not so much with high income as with complicated structures of business entities, trusts and assets.

Whatever your level of income or your risk tolerance, try to make your return pristine. And whoever prepares it, read it through carefully before filing! You may be surprised at small—and in some cases egregious—mistakes you may find. When you find and fix them before filing, you may have just spared yourself an audit.

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