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IRS Audit Risk If You're "Rich"

This time of year, it's only natural for the taxpaying public to think about audit risk. No matter who you are, what you do, or how little or great your income, there's always a chance you'll be audited. Our tax system depends on the overwhelming majority of people self-assessing their tax and doing so honestly and accurately.

But self-assessment can only go so far. One of the fundamental truths counterbalancing this self-assessment approach is that there must be an audit system in place. Moreover, for that audit approach to be effective, it's important that people *never really know* if a return will be examined.

Recently, the IRS released statistics about audit rates in its [2010 Data Book](#). There are plenty of raw numbers there, and examining them provides important clues about your chances. I have suggested a few conclusions one might draw. See [What's Your IRS Audit Risk?](#)

Oddly, a whopping 30% of audited returns claimed the earned income tax credit ([EITC](#)), meaning lower income taxpayers (e.g. not exceeding \$40,545 married filing jointly with one qualifying child). See [EITC Income Limits, Maximum Credit Amounts and Tax Law Updates](#). But as you would predict, for individuals and businesses alike, rising income generally means rising audit risk.

One of the more interesting finds in this IRS statistical missive concerns the upper end of the income scale. If you had non-business income of

\$200,000 to \$1 million, you had a 2.5% chance of audit. That chance increased to 2.9% if your return showed business activity.

However, if your income tops \$1 million, the audit rate was 8.4% according to the 2010 statistics, way up from 6.4% in 2009, and only about 4% in 2008. Compared with most of the other figures in the IRS tally, that is a significant shift in attention. It also seems to tie in with the notion that the rich need special—and not always discriminatorily positive—handling.

There's Rich and There's REALLY Rich. If your income is in the \$5 million to \$10 million range, the audit rate exceeds 11%, a steep increase from only 6% in 2008. If you are in this stratosphere, or even in the more modest but still rarified atmosphere earning over \$1 million, there are many variables that might cause an IRS computer or human to select a return.

One common point of confusion with the wealthy is the scope and nature of the still relatively new IRS task force dubbed the Global High Wealth Industry Group. See ['Audits From Hell' Target Rich](#). Some advisers and consumers refer to it as “The Wealth Squad,” but I prefer the more unvarnished “Rich Squad.” See [Richie Rich Tax Audits](#).

Although this targeted IRS examination program is still in a type of startup phase, some of the details have emerged. See [IRS High-Wealth Industry Group Evaluation of Wealth Squad IDR](#). Most important, it is clear these audits are much more than merely about the size of one's income. They are predominantly about complexity, including the interlocking entities (both trusts and companies) and global footprint the wealthy often leave. See [IRS Targets Rich Taxpayers](#).

Be Careful. No matter how sure you are of the accuracy of your return, you don't want to be audited. All taxpayers want a plain vanilla return, and nothing prevents you from trying to give it that flavor as long as you fully and fairly complete it. See [10 Ways To Audit Proof Your Tax Return](#).

For more, see:

[IRS 'Wealth Squads' On The Way](#)

[Is the New IRS Wealth Squad Coming for You?](#)

[Can IRS Apologize For Frequent Audits?](#)

[Care With Forms 1099 Helps Audit-Proof Tax Returns](#)

[The ABCs of Hobby Losses and Profit Motive](#)

[When Taxpayers Go Fishing For Deductions](#)

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