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Do Wealthy People Like Trump Have Easier IRS Audits?

By Robert Wood
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When Leona Helmsley said, "only the little people pay taxes," she suggested that the rules for wealthy people are different. More recently, Donald Trump may be causing a new generation of taxpayers to fear that it is true. His complaints of constant audits that prevent him handing over his tax returns suggest wealthy people face tougher audits.No one wants to be audited, and the statistics show that any income level, audits are still a rarity. Not surprisingly, though, audit rates for big companies and wealthy individuals are higher than for others. And wealth is hard to fix.

What's more, it isn't so much the amount of money or size of the annual income that matters. A big loss–like Donald Trump's $916 million whopper, can raise eyebrows and prompt an audit too. Much of the audit focus is understandably about complexity. Complexity on your return can make your audit more complex too. So do wealthy people like Trump have easier IRS audits? There is much to argue that they do not, and that the contrary is true. Indeed, there is a special tactical team of the IRS to audit them, the IRS Wealth Squad. In the financial world, it is a veritable IRS audit SWAT team.

And yet statistics might be read to suggest that wealthy individuals often outdo even this elite wing of the IRS. It is true that audit rates for wealthy taxpayers are higher than for regular earners. You might assume that when the IRS does audit these elite taxpayers, the IRS collects big. Often, though, that appears not to be true. Plainly, the IRS Wealth Squad usually conducts a far more comprehensive audit than a regular audit. Yet even then, in a significant percentage of the audits it handles, the IRS Wealth Squad walks away without a single dollar.

The latest year for which statistics are available, 2014, revealed that the IRS Wealth Squad gave no-change audits to over 40% of their cases. That certainly does not mean the IRS is intentionally giving a pass to the wealthy. In fact, it may be attributable to the high standard of professional legal and accounting advice that wealthy taxpayers often receive. The IRS may find low-hanging fruit in many audits. But with wealthy taxpayers, even digging deep may not yield results for the IRS. In a sense, wealth is not even the relevant criteria for being targeted by the IRS' Wealth Squad.

It is part of the IRS's Large Business and International Division, which generally means more than $10 million in assets. Assets and income are not the same, of course, as Trump has proven time and again. A business might have over $10 million in assets, but only a tiny fraction of that in annual income. That applies to individuals too. If you simply have a large Form 1040 and nothing more, the Wealth Squad is not interested. In fact, there's a reason the Wealth Squad germinated in the fertile soil of the IRS's Large Business and International Division.

They are adept at dealing with the complex business and investment entity structures that wealthy people so often use. For reasons of tax law, liability protection, hedging investment risk, anonymity, and succession planning, most wealthy people don't put all their eggs in one basket. A Wealth Squad audit, therefore, would logically take into account the range of assets and entities across the family group. The written questions and paperwork required can be extraordinary, too.

The IRS commonly issues Information Document Requests, usually abbreviated to "IDRs" by tax professionals. If you get an IRS IDR you are not required by law to respond. However, you should always respond. If you don't, you will usually end up with a subpoena so it's foolish not to consider them with care. Usually that means having tax professionals help you. In the case of a Wealth Squad audit, that conclusion is even more obvious. The Wealth Squad pursues a comprehensive approach to auditing elite taxpayers.

For one thing, almost inevitably, the audit will expand beyond the individual's income tax return to include examinations of related and controlled entities. That is likely to be where much of the money and the complexity can be found. If a taxpayer like Donald Trump has hundreds of entities that feed up to him, they may all be fair game. Of course, if there is a big loss, and if it has been properly claimed, the IRS may get more out of a simple audit of more modest income taxpayers.

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