

## IRS Audits Are Up...Protect Yourself!

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Statistics show that the IRS spent about \$8.2 billion in 2011 to enforce the tax laws. What does this mean for the average taxpayer? For starters, it means that the IRS is continuing to raise the number of audits it conducts each year. It also indicates that you as the taxpayer need to find ways to “audit-proof” yourself AND prepare for what to do if you ever do get an examination letter in the mail.

Let’s face it; REVENUE is the IRS’s middle name. Their job is to collect as much money as they think taxpayers might owe. And the only way to KNOW how much they might need to collect is to conduct audits of a sample of the population each year.



The law provides that the IRS has up to three years after the due date of your return to audit it under normal circumstances. For example, a 2011 return due October 15, 2012 (extended deadline) may be examined until October 15, 2015. What’s more, the IRS has six years to audit a return if they believe it may be missing 25% or more income. Additionally, there are two situations – tax fraud and failing to file a tax return – that allow the IRS to go back indefinitely to conduct an audit.

So how can you know if you are going to be targeted for an audit? Well, some well-known tax situations exist that seem to be high on the audit list.

### Who does the IRS target for audits?

- New businesses taking “hobby” losses.
- Business or reimbursed employee expenses such as travel, meals, entertainment and auto mileage that all have elements of personal use to them.
- S-corporations in which officers fail to pay themselves wages or pay very little in comparison to others in their industry
- Charitable donations (did you really make them)
- High-income tax payers (\$200k plus earners are 50% more likely to be audited)
- Schedule C businesses on your 1040. Why? It’s easy...the information is right there on your personal tax return
- Taxpayers claiming the earned income tax credit. The IRS has found that the EIC is a tremendous source of fraud, so be very certain you qualify if you take it.
- Offshore bank accounts...you MUST disclose whether you have one
- Home-based businesses

Perhaps one of the most surprising facts is that people who file their tax returns on time have a higher chance of being audited than those who file extensions. We don’t know why that is, but the statistics support it.

## What are the odds that you will be audited?

The good news is that we know with fair certainty what percentage of taxpayers will be audited based on income. By far, the highest audited group at 4.2% includes those who have a business and earn between \$100,000 and \$200,000. The targeted Schedule Cs for sole proprietors are audited at a rate of 1.6% of all tax returns. And, if you make less than \$200,000 with no business, you are pretty safe. Only .4% of all returns in this category are audited. Other low-audit risks include partnerships/LLCs and S-corporations.



## How to audit-proof yourself

So how do you limit your chances of getting audited? There are many things you can do to reduce your exposure. Here are several rules to follow:

1. ALWAYS report all your income.
2. Check your return for math errors before filing it.
3. Don't use round numbers for anything (i.e. \$500 or \$1,000 for donations).
4. Either file close to April 15 or get an extension (early returns are audited more).
5. File a neat, organized return.
6. Do not leave blank lines if possible.
7. Attach explanations for unusual items.
8. NEVER lie or try to deceive the IRS.
9. Incorporate your business instead of using Schedule C.
10. Keep your numbers in line statistically with national averages (i.e. your meals and entertainment expenses should not be half of your business income).

Above all, prepare yourself in case you do get an audit. Realize it's not the end of the world. Arm yourself now by keeping records of income and expenses. That means receipts, mileage logs, calendars etc. If you have a business, do not co-mingle funds; maintain SEPARATE bank and credit card accounts for personal and business.

If you do not agree with the audit proposal, don't take no for an answer. Use the IRS bureaucracy to your advantage. Work the system. Call the Taxpayer Advocate's Office if you have to, but NEVER just ignore the IRS (or things can turn from bad to worse).

Remember you can and should get help from a professional if you don't feel confident about dealing with the IRS yourself. If you need help today, call Admin Books for a complimentary "Get Acquainted" meeting of your situation...We know how to deal with the IRS!