



Chances of an IRS Audit in 2018

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I always have a sense of accomplishment when I file my taxes. Most of you are also resting easy, unless you filed for an extension. Taxpayers who filed for an extension still have until September 15th to file a business return and until October 15th for individual returns. Once you file, the only thing left to worry about is the chance of getting audited. The IRS generally has three years to initiate an audit. Just the thought of an IRS audit strikes fear in most Americans.

What are your chances of an IRS Audit?

What is the chance of your tax return being selected for an IRS audit? The number of audits has been declining every year since 2010. Overall, the chance of being audited is only around .6%. However, the more you earn, the higher your chances. Naturally, the IRS has limited resources, so it concentrates on those returns likely to bring in the most additional dollars. Although, claiming no

income also increases your chance of an audit. The chart below shows your chances of being audited based on actual audits for fiscal 2017 (the last year for which complete data is available):

IRS Audit Rates by Income Level for Individuals (2017)

	Percentage of Total Returns Filed in Year 2016	Percentage of Returns Audited
No adjusted gross income	1.69%	2.55%
\$1 - \$24,999	36.47%	0.71%
\$25,000-\$49,999	23.33%	0.49%
\$50,000-\$74,999	13.26%	0.48%
\$75,000-\$99,999	8.59%	0.45%
\$100,000-\$199,999	12.19%	0.47%
\$200,000-\$499,999	3.60%	0.70%
\$500,000-\$999,999	0.58%	1.56%
\$1,000,000-\$4,999,999	0.26%	3.52%
\$5,000,000-\$9,999,999	0.02%	7.95%
\$10,000,000+	0.01%	14.52%

How does the IRS decide whom to audit?

Well, that's the secret sauce. Each return is assigned a score, and certain items can increase the chance of an audit. The IRS does not tell you what those flags are, but here are a few that are commonly believed to increase your chances:

- Using a tax preparer who has a bad reputation with the IRS
- Unusually large **charitable deductions**. Fewer people will be claiming charitable deductions since the new tax law will lead far more taxpayers to take the standard deduction.
- Entering rounded-off numbers in your return
- Pretending a hobby is really a business that perpetually loses money
- Excessive deductions for meals/travel/entertainment. These are harder to deduct under the new tax law. Read about those changes [HERE](#).
- Claiming 100% business use of a vehicle

- Claiming the home office deduction. There are specific rules, which you can read about [HERE](#).
- Filing a Schedule C with your tax return. Schedule C is for self-employed business income earned as a sole proprietor. Your audit risk jumps if your Schedule C shows revenues between \$25,000 and \$100,000.
- Foreign bank accounts
- Not claiming all your income (The IRS gets copies of your 1099s and W-2s.)
- Big changes in income from the prior year

The good news if you get audited:

The good news is that if you do get audited, 70% are simple correspondence audits handled by mail. The most common scenario is the IRS requests records to verify a specific claim on your return. This is less stressful for most people than the office audit. The other silver lining if you get audited is the government may owe you money. Tens of thousands of audits result in refunds to the taxpayer each year.

The bottom line is most audits are no big deal...as long as you didn't cheat on your taxes, which I know none of you did.

Sources:

<https://www.financial-planning.com/list/9-red-flags-that-can-trigger-an-irs-audit#slide-12>

<http://www.taxdebtshelp.com/tax-problems/tax-audit/irs-audit-statistics>