

Instances That Will Merit an IRS Audit

Any taxpayer will be happy to learn what will get the attention of the IRS enough for them to subject you to an audit. For some time now, a large percentage of the tax returns are processed by IRS computers. These programs simply pick out those that are not within the statistical average, or what is considered normal when the group is examined as a whole, and then flags them. This flag raises the chances that such particular tax record will be audited. It will then be manually reviewed by an IRS employee. In some cases, the IRS computer simply prints out a notification that will then be automatically delivered to the concerned taxpayer.

The good news is if you get audit flags, you will not be automatically audited by the IRS. It only means that your chances of getting one are substantially increased. Note though that there are flags that you could effortlessly avoid. Submitting sloppy and incomplete forms is one of them. Avoiding potential IRS problems would require you to do your math computations correctly and to provide information completely. Otherwise, the computers will get confused with the entries in your tax return and the intervention of an actual IRS agent will be needed in this situation. Tax returns that are filed electronically are less likely to have this kind of issue as these errors are easily identified and corrected by the automatic math checkers embedded in the electronic system.

Another scenario that will put up red flags is the non-declaration of all of your earnings. Note that duplicates of all your W-2's or 1099's are also forwarded to the IRS. This explains why the IRS has an accurate record of everything you earn and if you try to outsmart them by not giving them complete reports, you're surely up for an IRS audit. To protect yourself from potential IRS problems, remember to make miscellaneous income, dividends and interests part of your annual income.

If you claim that you're earning a great deal less than your industry norm, that will also raise a flag in the eyes of the IRS. Conversely, reporting that you earn significantly more than the minimum will also raise red flags. In fact, a minimum of 5% of all taxpayers are audited yearly. Anybody making over \$100,000 are estimated to be about five times more likely to be audited and have an IRS issue.

You'll also be given an audit flag if your tax record shows extreme fluctuations in your income level in a particular year. The IRS will certainly be alerted with large differences in income levels as it implies that at some point within the year, you have under-reported your income.

As surprising as it may sound, even having too many round numbers on your tax return can raise an audit flag. For example, most transactions aren't exactly \$1,000 or \$500. Having this kind of numbers will make the IRS think that you have been rounding up too many transaction records and you are definitely up for something. At the very least, this case will prompt the system to have your records rechecked by an actual IRS employee.

The items discussed in this write-up are just few of the many known IRS audit flags and there are still a lot that people should be aware of for them to avoid an audit, and eventually, IRS trouble.

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