

Who is going to get audited by the IRS?

All taxpayers are potential subjects for an audit. The IRS supposedly uses a secret method to identify returns for audits. However, there are some situations that seem to “flag” an audit more than others.

1. What others report to the IRS on your behalf. This is a very simple one. If someone is sending the IRS notification with your social security number, the IRS will be looking for you to report it on your tax return, exactly as it has been reported to them. For example, if you get a Form 1099 Interest, make sure you report it on your taxes in exactly the same amount. This is an automatic check that is done systemically without any “auditors” having to get involved. It is obvious, you missed something.
2. For closely held small corporations, be sure to pay yourself as the owner a reasonable salary. Sometimes, it is clear that the owner’s compensation is not “reasonable” so they conclude you may be trying to hide something.
3. Hobby Losses. If you have a business and it is not making a profit, the IRS may conclude that you are simply trying to create losses. The losses may cause you to pay less tax against the other income you have earned. There are rules about how many years you can actually have a loss before it is deemed a “hobby”.
4. Cash Businesses. Many businesses, by its nature, are simply a cash business. If you operate one of those businesses, an auditor will find other ways to prove what income you should have reported. For example, a pizza restaurant showed that they sold \$182,250 in pizza sales, at an average of \$10 per pizza, they sold 18,250 pizzas per year. However, upon review of the pizza box purchases, the auditors found that 50,000 pizza boxes were purchased in that year. So the auditors, either wanted to see the remaining 32 thousand boxes or to negotiate on what their real income was.
5. Mileage, Meals and Entertainment. The rules for these deductions are very specific and most tax payers do not follow all the rules. A taxpayer who deducts mileage for business must keep a “contemporaneous” record of their daily mileage. Meals and Entertainment expenses in some cases may need to be detailed enough to document who was present at the meal and what the purpose of the meeting was.
6. Charitable Contributions. Non-Cash donations have many rules relating to the “value of the donations” and the type of donation. For cash donations, many taxpayers use to automatically deduct cash donations to their church. Depending on the amount, the church may be required to document the donation, and the taxpayer cannot simply claim they paid it in “cash”.

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