Are You an **Audit Risk?**

You may have heard that IRS audits are few and far between these days, and, for most taxpayers, the risk is indeed low. An average American taxpayer ten years ago was about three times more likely to be audited than they are today. The IRS just doesn't have the staff and resources to audit like they used to. In fact, it's been said that there are fewer auditors in recent years than at any point since World War II.

But that doesn't mean you're off the hook. Thanks to improved technology, the IRS has become more efficient at identifying who exactly should be audited. Therefore, while fewer audits may be happening, the accuracy of those audits has increased tremendously. The result? The IRS is winning more cases and doing more with less.

While any taxpayer is at risk of an audit at any time, certain taxpayers are audited at higher rates. These include:

Taxpayers with income above $500,000. Of course, it pays for the IRS to audit higher-income taxpayers more often than lower-income taxpayers. The $500,000 mark seems to be a critical threshold in which audit rates more than triple compared to those with lower incomes (as low as $25,000). Audit rates double once income reaches $1 million and once more at an income of $5 million or higher.

Low-income taxpayers. Yes, that's right. Audit rates increase below the $25,000 income threshold as well. This group is five times as likely to be audited by the IRS as the average taxpayer. Those who claim the Earned Income Tax Credit (EITC) are especially vulnerable to an audit.

Non-filers and under-reported income. The IRS uses software called an Automated Underreporting (AUR) program to match information returns against taxpayer returns to catch underreporting of income. The IRS also boasts of using artificial intelligence (AI) to create a "heat map" that can identify high-income non-filers (individuals who have historically flown under the IRS radar), sometimes with just **a name and a cellphone number** as a starting point.

Small businesses. No offense if you're an entrepreneur, but small business owners can be notoriously messy with their math homework. That makes them easy audit targets. Common audit triggers for small businesses include excessive expenses and deductions, missing income, tax form mistakes, underpayments, and repeated yearly losses.

Large and complex corporate taxpayers: A special Large Corporate Compliance (LCC) program uses AI technology to evaluate large taxpayers' gross assets, gross receipts, operating entities, multiple industry status, total foreign assets, total related transactions, and foreign tax.

So what are the odds of an audit? It depends on whether you're among the unlucky few who trigger a closer look. Never assume you'll fly under the radar.

Steven Bankler has more than 45 years of experience in the accounting industry. Steven's expertise lies in consulting, planning, tax, and asset protection, as well as exit strategy services for closely held businesses. He also provides litigation support (both as a testifying expert witness and a consulting expert), business negotiations and estate planning. Visit www.bankler.com for additional tax strategy tips and to learn more about Steven Bankler, CPA Ltd.