Tax Deductions that Alert an Auditor

It's natural for taxpayers to try to claim as many deductions on their annual tax returns. It's clear that they do not want the IRS any more than they actually have to, and that they want to pay less whenever possible. However, a number of tax deductions have been utilized so many times or claims for deductions are almost unreasonable that when these are reflected in the tax return, the IRS will always notice. Sure there are always truthful and valid reasons for using any of the deductions, but depending on the amount of the attempted deduction, it will be very clear to any IRS agent that something is wrong, and audit will be required. It's important to note that an IRS audit will cause you to have problems related to your taxes.

One of the most misunderstood deductions is the home office. People think that they can claim a deduction equivalent to the entire value of the house if they make it an office. They don't realize that certain rules are outlined to orient taxpayers of the extent of their rights. Remember that IRS auditors have often seen many inconsistencies and errors on tax returns. In fact, they have computers that calculate the correctness of tax returns and even the probability on certain criteria which will aid them in the decision to audit one tax return over another. If you have simply deducted the entire value of your house because you have a home office, then you are up for some IRS trouble.

Business owners also believe that they can deduct the total amount of their auto expenses from their taxes when they advertise their company's name on their cars. What they should know is that only deductions equivalent to the cost of paint and other advertising materials can be claimed. Another alternative is claiming for a deduction on a certain percentage of their total auto expenses. This percentage is equal to the vehicle's mileage for business divided by its total mileage. For instance, if you have a total annual mileage of 10,000 and 2,000 of this is used for business, then you can claim for 20% of your total auto expenses as deduction. This scenario then magnifies the necessity to keep accurate logs of your mileage so you will not have IRS problems when claiming deductions related to your auto expenses.

Deductions regarding body parts and pets also commonly appear on people's tax returns. Surprisingly, people do attempt to claim for deductions of body parts donated to science. Sadly, in most cases, donations to non-profit organizations can't be deducted unless 100% of your ownership rights, or interest, is donated. The IRS does not consider donating a body part alone as giving up 100% of your ownership rights or interest since it's just a 'part' of your body. Anyone who tries to deduct either body parts or their pets on their tax returns should also prepare to deal with some IRS problems.