

The Usual Audit Flags

Any taxpayer would want to know what items in the tax return will be considered red flags by the IRS. The IRS utilizes computer programs that will process almost all tax returns and check them for some suspicious entries when compared to the statistical average. Anything beyond this average will be regarded as a red flag. All flagged entries will either be manually rechecked by an IRS agent or will be automatically dealt with by the computer --- that is, it will print out a notification that will be directly sent to the taxpayer.

Audit flags don't mean you are certainly up for an audit. Your chances for an audit, however, are greatly increased. There are flags that could easily be avoided though. Among these is submitting sloppy and incomplete forms. Avoiding potential IRS trouble would necessitate you to do your math calculations correctly and to provide information completely. Otherwise, the computers cannot understand the entries in the tax return and an IRS agent will need to review this. However, filing tax returns electronically will somehow solve this simple problem as the programs have math and field correctors that can identify erroneous calculations and lacking entries.

Not reporting all of your income to the IRS will cause you problems. Basically, anyone who gives you a W-2 or 1099 also forwards a copy to the IRS. This explains why the IRS has a reliable record of everything you earn and if you try to outwit them by not giving them complete reports, you're surely up for an IRS audit. Miscellaneous income, dividends, and interests should always be reported as part of your earnings so you will not have issues with the IRS.

Claiming that you are making below the minimum wage will also raise questions. Conversely, if you claim that you're making a great deal more than the industry norm, expect a flag and an audit. In fact, less than 5% of all taxpayers are audited yearly. In the same manner, those who have an annual income of more than \$100,000 are 5 times more likely to undergo an audit.

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

Believe it or not, having too many zeros in your tax return will merit an audit flag. This is because of the premise that most transactions are not exactly worth \$1000 or \$500. Having this kind of figures will make the IRS think that you have been rounding up too many transaction records and you're certainly up for something. This will, at the very least, cause the system to force an actual IRS employee to recheck your tax return.

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 ultimately, an IRS problem.