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5 Activities that Increase Chances of IRS Audit

An IRS audit is something no one looks forward to. But the IRS has recently employed a higher number of agents to increase their scrutiny of tax returns, resulting in a higher number of cases brought up for audit. Statistics show that overall, only 1.11% of taxpayers were audited last year compared to just 1% the year before. But for certain groups of taxpayers the audit rate was higher. For example, business owners were audited at a rate of slightly over 4% and the wealthier you are the more likely you get audited. Those earning more than a million dollars a year had an 8% chance of being audited.

In addition to your income bracket and business profile, there are other activities that increase your chances of being notified of an audit.

1. Donations disproportionate to income

If you make a large donation that is disproportionate to your income, it raises a red flag with the IRS. Some retirees with low incomes have made substantial charitable donations and have been unnecessarily notified of an audit.

2. Claiming interest deductions on home loans

As a homeowner you are allowed to claim an interest deduction for up to $1 million of mortgage debt, and up to $100,000 of home-equity debt. The IRS is focusing particularly on taxpayers who claim big interest deductions on mortgages and equity loans due to many people using their homes as collateral in loans for college tuition or just to pay bills.

3. Adoption credit without proof

Last year the IRS raised the ceiling for the adoption tax credit to $13,170. Furthermore, it became refundable i.e. you could claim it and get a refund even if you do not owe any taxes. The IRS has been asking those who claim this credit to furnish relevant proof.

4. Property gifts

The tax code says you must report any gifts valued above $13,000. Many wealthy taxpayers have been giving gifts in the form of property because of the low property prices. So the IRS has been checking property transfer records and comparing them with tax filings to find taxpayers who have not declared their property gifts.

5. The super rich

Just by earning more than $10 million a year, you would increase your chances of an audit. Records show that 18% of taxpayers in this group of super rich were audited this year compared to just 10% last year.