10 Things That Can Lead to an Audit

by Gleba & Associates

Tomorrow is the deadline for filing your 2017 tax returns. While there is no guarantee that anybody won't be audited, here are the 10 things that are most likely to cause your tax return to be flagged by the IRS:

1. Misreporting or not reporting income – Making sure that the income from W-2s and 1099s matches the income reported on the return is critical. Among other things, it’s easier than ever for the IRS to access and compare the amounts reported, making it harder and harder to get away with discrepancies, which then stand out like sore thumbs.

2.Earning more than $200,000 – In fiscal year 2017, the IRS audited just 0.2% of most returns of taxpayers with under $200,000 in income, but it was four times as likely to audit those with between $200,000 and $1 million in income, looking at 0.8% of those returns. People earning more than $1 million are the most at risk for being audited. The IRS looked at 4.4% of those returns in 2017.

3. Big changes in income – Whether it's a scary drop or a significant increase, major changes in income can catch the eye of the IRS.

4. High charitable deductions – The IRS has been implementing stricter rules for documenting charitable giving for some time, as well as paying attention to claims for deductions than are higher than average for the taxpayer's income. For next year, the raising of the standard deduction in the Tax Cuts and Jobs Act is expected to significantly decrease the number of people who itemize their charitable deductions, which could have the unexpected side effect of making unusual claims stand out even more.

5. The wrong Social Security number – Between concerns about ID theft and underreporting of income, returns with inaccurate Social Security numbers of discrepancies between the numbers on source documents and the return itself, will often draw added scrutiny and possible rejection.

6. Hobby losses – The IRS has some very specific rules and guidelines for what qualifies as a business and what's just a hobby that happens to cost a lot of money. Some of those hobbies, like horse racing and horse breeding, will often generate increased attention.

7. Inconsistent alimony reporting – Since those who aim to deduct alimony need to report the Social Security number of the ex-spouse to whom they're paying it, it's easy for the IRS to detect if the claim matches what was actually paid. Note that, thanks to the Tax Cuts and Jobs Act, alimony for divorce settlements made after Dec. 31, 2018, will no longer be deductible.

8. Home offices- It’s perfectly legitimate to claim a home office, but it has to meet the strictures of the tax code and the IRS’s guidance. With too many taxpayers attempting to claim their living room because they sometimes answer work-related emails in it, this is a red flag for auditors.

9.Big meal and entertainment expenses – From all the millions of returns they receive, the IRS has a pretty good sense of what most types of businesses spend on meals and entertainment, so claiming outsized expensive deductions will draw their eye. This will be even more of an issue during next tax season, when the TCJA’s stricter limits on the deductibility of business meals and entertainment expenses go into effect, which means businesses should be paying attention to those limits right now.

10.Owning a cash business – It’s much easier for a business that deals in cash (restaurants, bars, convenience stores) to hide or misreport income, so the IRS is more likely to examine the return of an individual who owns one.