How to avoid an audit by the IRS

Posted by Joy Shrum-Reporter On 02/07/2017

Hollywood, MD - Are you spending hours sorting through your tax paperwork and Internal Revenue Service (IRS) forms in preparation to file your federal taxes? As you prepare your return, there are a few things you want to make sure of before you file to avoid a possible audit from the IRS.

1. You filed a paper return: This is one sure way to draw the attention of the IRS. Paper returns have a much higher chance of making a math error than online software. Paper returns have a 21 percent error rate compared to just 0.5 percent of e-filed returns.

2. You claimed a home-office deduction: This is one of the most abused tax deductions. You might think taking a home-office deduction is a guaranteed tax audit trigger, that’s not the case. However, the IRS will look for deductions that don’t make sense. If you claim the largest room in your home as your office, but you use the same room to host parties, the IRS might take notice.

3. You received the Earned Income Credit (EIC) but you have no adjusted gross income (AGI): It might come as a surprise to many, but low-income tax filers are much more likely to be audited by the IRS. Individuals or couples who claim the EIC but have no AGI will raise red flags. The IRS estimates roughly 25 percent of EIC payments made each year are fraudulent. The IRS is trying to cut down on those this year by delaying tax refund checks to EIC recipients in an effort to reduce the fraud with EIC payments.

4. You make more than $200,000: If you make a lot of money, you’ll also face a potential audit. That’s because the IRS has more to win by finding errors on high-income tax returns. In 2014, there was a huge jump in audits for those falling between $100,000-$499,999 AGI ranges.

5. You have a long list of Schedule C losses: If you’re self-employed, filing a schedule C can benefit you or could raise a red flag for the IRS. Reporting a loss is expected from relatively new businesses. However, write-offs that result in ongoing losses could draw the attention of the IRS.

6. You claim too many business expenses: The IRS is looking for typical business expenses, like rent payments and computer software. However, if you’re buying new cookware and you’re a tax professional, you can’t write that off. Ask yourself this one general question when it comes to claiming business expenses—is this good or service necessary to me or my business? If the answer is yes, it’s a write off.

7. Your charitable contributions are high compared to your income: Donating to charity is a tax deduction and one many enjoy claiming on their taxes. However, if you make $50,000 but claim you donated $15,000 to charities, that’s one sure way to get the IRS to do a double take.

8. You failed to include Form 1099 income: Do not overlook the income you received as a freelancer. This is automatically reported to the IRS and if you fail to include it in your return, the IRS will eventually catch up to you. If you fail to report income, your chance of an IRS tax audit goes way up.

9. Your numbers are too perfect: If you don’t have the proper documentation for your expenses and deducts and you just “round up” it could be a red flag. It’s pretty uncommon for expenses, deductions and income to all land on whole numbers and the IRS might question it.

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