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Tax Return Tips: What Triggers an IRS Audit & How to Minimize Your Risk

We are frequently asked by our individual tax clients how they can avoid being chosen for an IRS audit. The truth of the matter is that the IRS randomly chooses some tax returns for audits, hence there is no 100% guarantee you will not be picked. However, there are certain things you can do that will work in your favor, and there are also some red flags that may catch the attention of the IRS. **Completing and filing your returns in a timely and accurate manner is always a good practice.**

What are your chances of being audited? For individuals, it depends on your income. In fiscal year 2013, returns reporting income under $200,000 stood a 0.88 percent chance of an audit. Those with incomes of $200,000 and more had a 3.26 percent chance. If your income was $1 million or more, you had a 10.85 percent chance.

For your information, here are some examples of items that can trigger an audit:

- **Oversized charitable contributions:** The IRS publishes data on the average size of charitable contributions for various income levels. If you take a deduction for an amount that is much larger than the averages, you could hear from the IRS.
- **High mortgage interest:** The maximum amount of qualified home indebtedness is $1.1 million (including home equity loan). A mortgage interest deduction that is in excess of a certain percentage of the debt limit could indicate an excessive deduction.
- **Unreported income:** Failure to report gambling winnings, interest and dividends, non-employee compensation (1099-MISC), K-1 items, etc. may just trigger a letter and bill from the IRS – or it could generate an audit.
- **Unreported income from "crowdfunding":** If the money starts rolling in, these individuals and organizations likely have to report it to the IRS as taxable income.
- **Miscellaneous itemized deductions:** Exceeding the two percent of adjusted gross income threshold is difficult, so large miscellaneous, itemized deductions may perk the interest of the IRS.
- **Unreimbursed employee business expenses:** These expenses may be deductible, but substantial amounts are likely to raise questions because they are frequently reimbursed by an employer.
- **Home office:** If you use a portion of your home exclusively for your business, you can deduct the expenses and depreciation associated with the space. However, you have to show the business connection and that the space was used exclusively for business. Both can be challenged by the IRS.
- **Rental losses:** These could be challenged if there's no revenue from the property.

What should you do if you have any of the items above on your return? If you are entitled to tax breaks, it doesn't make sense not to claim them. Our suggestion is that you make sure you have the required records and tax law justification to back them up.

If you have any questions on this topic or would like get additional advice on effective tax return preparation, please contact: **Steven J. Robertson**, Senior Tax Manager, at *srobertson@lvhj.com* or 415-905-5419.

Click here to read more about Steven J. Robertson.

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