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THE TAX LAWYER

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Filing Taxes? Beware Sharp Increase In Audit Rates

Ah, tax day with its inevitable fretting over returns, extensions and payments is almost upon us! It's hard not to think about your chance of audit when filing your taxes. Yet as a tax lawyer, I must **assume** every return will be audited. If I believe there's a 50% chance a deduction is correct, my advice must be based on the merits not on the audit lottery.

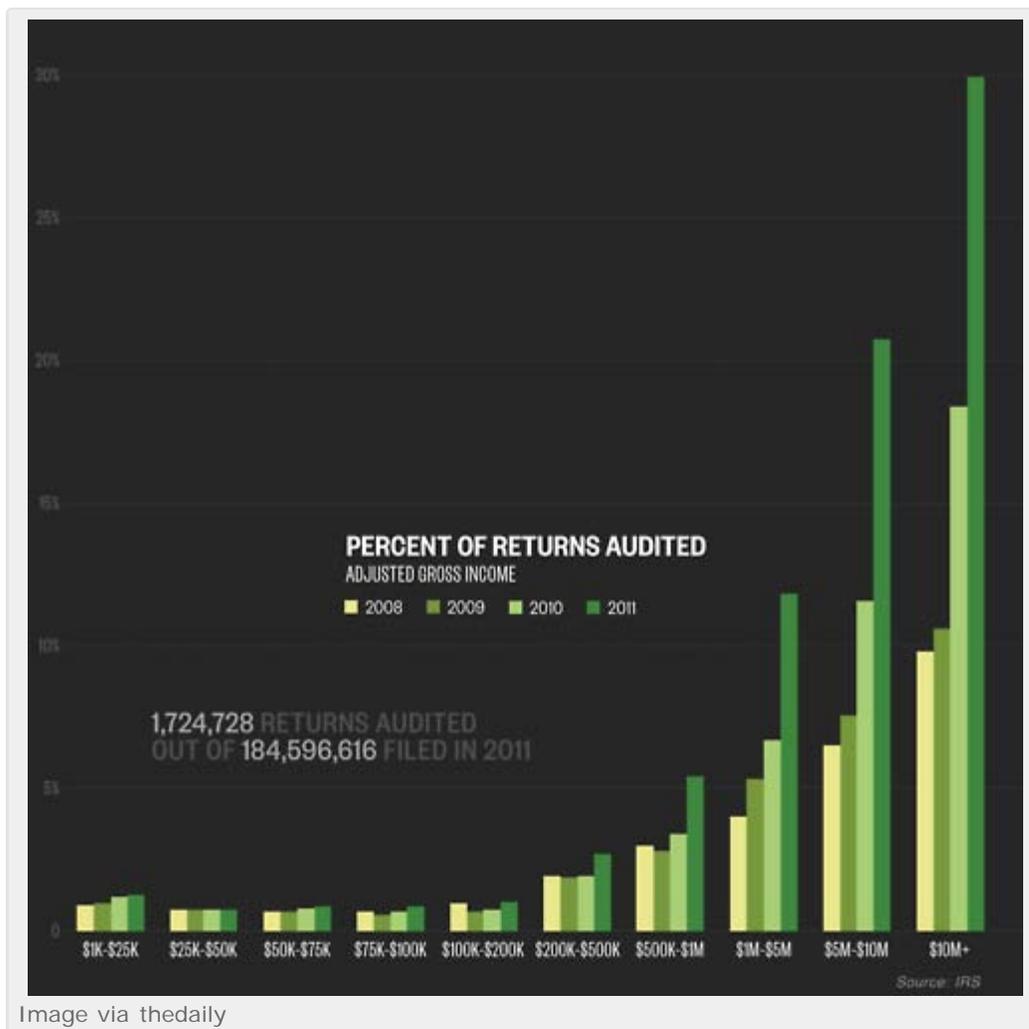
Still, when I wrote [Beware More IRS Audits, Especially For Wealthy](#), I hadn't seen the latest statistics that prove just how wary you should be. The IRS has released its [2011 IRS Data Book](#) showing an unprecedented 62.8% spike in audit rates on the wealthiest taxpayers. These audits top out an all-time high of 30%.

The IRS has long been criticized for putting too many resources into auditing taxpayers with comparatively simple issues and relatively few dollars at stake. High income persons not only have more dollars on the table but tend to have tougher and more nuanced tax issues. That can make audits more revenue productive.



The IRS has been expanding audits in the upper income echelons for a few years, but in 2011 made great strides. The **extremely** wealthy are in a class by themselves when it comes to audits. The most heavily audited group makes more than \$10 million. A whopping 30% of this rarefied income group was audited last year, up from 18% the year before.

For those making between \$5M and \$10M, 21% were audited in 2011, compared with 12% last year. Of taxpayers making between \$1M and \$5M, 12% were audited last year, up from 6.7% the prior year. Even taxpayers in the \$500,000 to \$1M range had a sharp uptick in audits: 5.4% were audited last year, an increase of 3.4% the year before. See chart below.



In all, audit rates are still comparatively low. If you have a 5% chance of being audited, there's a 95% chance you'll skate by. But over a lifetime of paying taxes, sooner or later your number may come up. The IRS says only 1.1% of all individual returns are audited, but upper income

taxpayers are being targeted today more than in the past.

Don't confuse these new statistics with the IRS's [Global High Wealth Industry Group](#)—aka the Rich Squad. Launched in 2009, it is more concerned with **assets** than **income**. If you have \$10M or more in assets, expect scrutiny. Audits can start with a plain old Form 1040 but can expand into gift transfers, charitable issues and excise taxes. See [Avoid IRS Audit Triggers](#).

The high-net-worth person can expect a holistic approach, including family companies, gifts, and more. The IRS is turning big guns who are trained to ferret out data from large and sophisticated businesses on individuals. That means the IRS will ask questions and want documentation for virtually everything, overwhelming even wealthy taxpayers. See [Richie Rich Tax Audits](#).

For more, see:

[IRS Ramps Up Audits of Wealthiest](#)

[More IRS Audits Coming Your Way](#)

[IRS Increases Audits of Wealthy](#)

[IRS Audit Rate Nears 30% for Those Making \\$10 Million and Up](#)

[Audit Rates of Millionaires Nearly Double](#)

[IRS 'Wealth Squads' On The Way](#)

[Is the New IRS Wealth Squad Coming for You?](#)

[Is The IRS's Wealth Squad Working?](#)

[IRS Global High Wealth Taxpayer Program Lags](#)

[IRS Wins Big In Six Year Audit Push](#)

[What To Give IRS In An Audit](#)

[Beware Amending Tax Returns](#)

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