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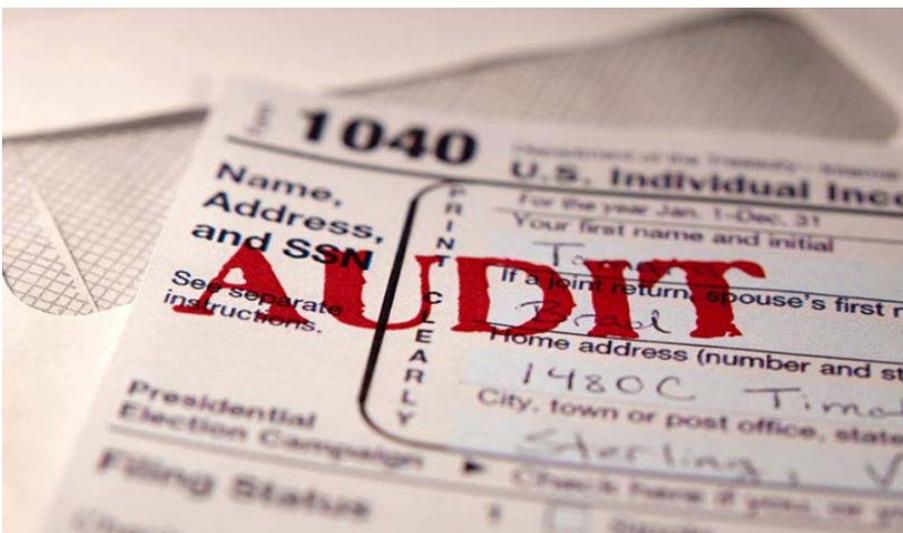
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### Worst Lottery To Win Is IRS Audit Lottery, So Decrease Your Odds

Everyone wants to win the lottery, even if statistics show that winning a pile of money can often bring new problems, including [suits by friends, co-workers, even family](#). But one lottery *no one* wants to win is the one that lands you in a tax audit. Sure, there is chance involved, just like the Powerball. But you can cut your chances if you're careful.

First, consider that you've got either [six or three years to bear the risk of audit](#). Certain tax mistakes can allow the IRS to audit you forever, but six years is the outside limit in most cases. With budget cuts and all the attention the IRS must now devote to the Affordable Care Act, the IRS is devoting less and less time to tax audits.



But be careful. Lower audit rates could embolden some taxpayers and tax advisers. But *someone* is going to get audited. And you should prepare as if you will be audited. If you are fully prepared for an audit, with documentation, receipts, log books, etc., you probably won't need them. That is the odd karma

about being prepared. Conversely, suppose that you figure you don't need any of those things and can produce if an when you are audited?

You guessed it, you probably will get audited. What's more, you won't be able to quickly produce all the things you think you can. Even if you do, the documents will almost certainly be much less persuasive to the IRS than contemporaneous ones would be. By 'audit rate' we simply mean the percentage of individuals' tax returns the IRS examines.

Audit rates have dropped. There are many old wives' tales about what triggers an audit. The size of your income is only one factor. Your deductions matter, your tax credits, and even which specific items you claim. But does mere wealth trigger an audit? The IRS's Global High Wealth Industry Group—aka the Rich Squad—has been around since 2009. Audits can start with a plain old Form 1040 but can expand into gifts, charitable issues and excise taxes.

A high-net-worth person can expect a holistic approach. All entities connected to the taxpayer are up for grabs, including family companies. The fact that the Rich Squad is part of the IRS's [Large Business and International Division](#) says a lot. They are adept at dealing with complex business and investment structures used by wealthy people. Rich Squad audits take into account the range of assets and entities in a family group. Trained to ferret out data from large and sophisticated businesses, the IRS has turned these big guns on individuals.

That means the IRS may want documentation for virtually everything. The Rich Squad is not dealing primarily with those who simply have high income on their Form 1040. The focus is not so much with high income as with complicated structures of business entities, trusts and assets. Whatever your level of income or your risk tolerance, try to make your return pristine. Check it and don't assume you won't be examined.

*For alerts to future tax articles, email me at [Wood@WoodLLP.com](mailto:Wood@WoodLLP.com). This article is not legal advice.*