

## IRS audits down, but *your* audit chances may be up

The IRS examined only 1.01% of all individual income tax returns in 2008, down slightly from 2007. But the Service audited almost 3% of \$200,000 plus returns, up 16% from 2007; 49% from 2006. For those earning \$1 million or more, the figure jumped to almost 5.6%

### **What rocks the boat?**

Chances of an audit increase if you:

- Make a mathematical error.
- Are self-employed and file Schedule C.
- Deal in large amounts of cash.
- Claim deductions considered high in relation to your income. (The IRS uses a computerized system that kicks out returns with deductions that fall above a range of what's considered acceptable amounts.)
- Report income that doesn't match the notices of income, interest, dividends, etc., that the IRS has received from your employer or a financial institution. (Usually, issues involving such discrepancies can be resolved rather painlessly by means of a letter.)
- Fall within any number of special situations: You have invested in something that the IRS has identified as an abusive tax shelter; you report a loss from what you consider a business but that the IRS considers a hobby; you are dubbed a cheater by someone who leaves an anonymous tip.

### **Audit proofing your return**

Your chances of avoiding an audit increase if you have the right paperwork and keep accurate records. Here are a few of the measures that tax pros recommend that you take if you are in some of the "trouble" areas:

- If a deduction is a large number—especially deductions for charitable and miscellaneous expenses—attach a written document to your return explaining why and itemize each expense on the page.
- If you deduct work-related expenses, have a letter from your employer stating that the expense was required as part of your employment; that it was for the convenience of your employer; and that you were not reimbursed. Be sure to have detailed documentation for travel costs, or a home computer that you were required to have for work.
- If you are self-employed or an independent contractor, maintain a separate business banking account and never "commingle" personal funds. If you are audited, the IRS will tally all your deposits and compare the total with the income that you reported. If your deposits are more than your reported income, IRS will consider the additional deposits income, unless you can show otherwise. Also, keep a record of any deposits that are not income — proceeds from a loan that you receive, for instance.
- Be especially meticulous in your record keeping if you are deducting expenses in what the IRS calls "areas of interest": vehicle mileage; business meals, entertainment and travel; business phone usage; and home office expenses.

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