

Tax audits down overall; wealthier taxpayers face highest risk

The Internal Revenue Service is conducting fewer tax audits than it has in years as the agency deals with budget cuts and reduced staffing. However, news of this trend may be cold comfort to those taxpayers who do find themselves facing the prospect of an IRS audit this year.

In 2013, less than 1 percent of U.S. taxpayers were audited by the IRS — the lowest audit rate in five years. This year, the IRS has fewer auditors on staff than it has at any time since the 1980s, which could mean that audits are likely to drop off even further in 2014. However, some taxpayers face a higher risk of audits than others.

For businesses and individuals, higher earnings mean higher audit risk

In general, higher-earning taxpayers tend to be significantly more likely to have their tax returns flagged for an audit. In 2013, the IRS audited just 0.88 percent of tax returns from those with incomes below \$200,000. Meanwhile, taxpayers who earned between \$200,000 and \$1 million that year faced a 3.26 percent chance of being audited. For people with incomes exceeding \$1 million in 2013, the risk of audits was even higher at nearly 11 percent. Even so, however, the audit rate in each of these categories was lower in 2013 than the year before.

Just as wealthier individuals are more likely to receive increased scrutiny on their tax returns, larger companies are audited by the IRS at a higher rate than small businesses. Although only about 0.6 percent of all business filers were audited in 2012, larger corporations with more than \$10 million in assets were audited far more frequently at a rate of about 16 percent, CBS News reported.

Do not delay in responding to an IRS inquiry

If you have received an inquiry from the IRS about your taxes, it is important to take action quickly in order to preserve your rights and legal options. Bear in mind that there are several different types of IRS inquiries, and not all of them signal that an audit is on its way. In many cases, a communication from the IRS may simply be a request for clarification or additional documentation regarding your tax return.

Whatever the underlying issue, ignoring a request from the IRS will only make things worse in the long run. If you receive notice of an audit or other IRS enforcement action, it is a good idea to consult with an experienced tax lawyer at your earliest opportunity. Because taxpayers typically only have a short window of time in which to respond to an IRS inquiry, it is important to take a proactive approach and deal with the situation head on. A skilled tax lawyer will help you understand your rights and responsibilities as a taxpayer and will work with you to resolve the issue quickly and efficiently.