What Are Your Odds of Being Audited?

They are low, unless you show the I.R.S. some conspicuous "red flags" on your return.

Fewer than 1% of Americans have their federal taxes audited. The percentage has declined recently due to Internal Revenue Service budget cuts. In 2016, just 0.7% of individual returns were audited (1 of every 143). That compares to 1.1% of individual returns in 2010.[1,2]

The rich are more likely to be audited – and so are the poor. After all, an audit of a wealthy taxpayer could result in a "big score" for the I.R.S., and the agency simply cannot dismiss returns from low-income taxpayers that claim implausibly large credits and deductions.

Data compiled by the non-profit Tax Foundation shows that in 2015, just 0.47% of Americans with income of $50,000-75,000 were audited. Only 0.49% of taxpayers who made between $75,000-100,000 faced I.R.S. reviews. The percentage rose to 8.42% for taxpayers who earned $1-5 million. People with incomes of $1-25,000 faced a 1.01% chance of an audit; for those who declared no income at all, the chance was 3.78%.[2]

What "red flags" could prompt the I.R.S. to scrutinize your return? Abnormally large deductions may give the I.R.S. pause. As an example, suppose that you earned $95,000 in 2016 while claiming a $14,000 charitable deduction. *Forbes* estimates that the average charitable deduction for such a taxpayer last year was $3,529.[3]

Sometimes, the type of deduction arouses suspicion. Taking the Earned Income Tax Credit (EITC) without a penny of adjusted gross income, for example. Or, claiming a business expense for a service or good that seems irrelevant to your line of work. A home office deduction may be ruled specious if the "office" amounts to a room in your house that serves other purposes. Incongruous 1099 income can also trigger a review – did a brokerage disclose a big capital gain on your investment account to the I.R.S. that you did not?[4]

Self-employment can increase your audit potential. In 2015, for example, taxpayers who filed a Schedule C listing business income of $25,000-100,000 had a 2.4% chance of being audited.[2]

Some taxpayers illegitimately deduct hobby expenses and try to report them on Schedule C as business losses. A few years of this can wave a red flag. Is there a profit motive or profit expectation central to the activity, or is it simply a pastime offering an occasional chance for financial gain?

If you are retired, does your audit risk drop? Not necessarily. You may not be a high earner, but there is still the possibility that you could erroneously claim deductions and credits. If you claim large medical expenses, that might draw extra attention from the I.R.S. – but if you have proper documentation to back up your claims, you can be confident about them.

The I.R.S. does watch Required Minimum Distributions (RMDs) closely. Failure to take an RMD will draw scrutiny. Retirees who neglect to withdraw required amounts from IRAs and employer-sponsored retirement plans can be subject to a penalty equal to 50% of the amount not withdrawn on time.[1]

The fastest way to invite an audit might be to file a paper return. TurboTax says that the error rate on hard copy returns is about 21%. For electronically filed returns, it falls to 0.5%. So, if you still drop your 1040 form off at the post office each year, you may want to try e-filing in the future.[4]

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Citations.

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