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What is the Probability of Being Audited by the IRS?

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In the past two years less than one percent of all income tax returns filed by individuals, corporations, and other entities were audited. However, that does not mean that every taxpayer has the same probability of being audited by the IRS. The annual IRS Data Book provides statistical data on IRS activity broken down by size, income and entity. When compared with prior year activity, the data gives a projection of which taxpayers the IRS is targeting for audits.

The majority of the audits, about 77.1%, were correspondence audits. A correspondence audit consists of the IRS sending the taxpayer correspondence requesting additional information. Only 22.9% of the individual audits were conducted by IRS personnel. These numbers are very similar to those for 2008.

Below are audit statistics for individuals (excluding returns filed claiming the Earned Income Tax Credit):

- Returns reporting business income (other than farm income) that had total gross receipts of \$100,000 to \$200,000: 4.2% of returns were audited in 2009 whereas 3.8% were audited in 2008.
- Returns reporting business income (other than farm income) that had total gross receipts of \$200,000 or more: 3.2% of returns were audited in 2009 whereas 3.1% were audited in 2008.
- Taxpayers with income of \$200,000 to \$1 million but with no business income: 2.3% of returns were audited in 2009 whereas 2.6% were audited in 2008.
- Taxpayers with income of \$200,000 to \$1 million with business income: 3.1% of returns were audited in 2009 whereas 2.8% were audited in 2008.
- Taxpayers with income of \$1 million or more: 6.4% of returns were audited in 2009 whereas 5.6% were audited in 2008.

It comes as no surprise that audit frequency increases for individuals with higher incomes, but the percent of audits in many income brackets was actually down in 2009 from 2008. Some sample statistics follow:

- For returns reporting adjusted gross income (AGI) between \$100,000 and \$200,000, the percentage decreased to 0.67% in 2009 from 0.98% in 2008.
- For returns reporting AGI between \$200,000 and \$500,000, the percentage decreased to 1.86% in 2009 from 1.92% in 2008.
- For returns reporting AGI between \$500,000 and \$1,000,000, the percentage decreased to 2.77% in 2009 from 2.98% in 2008.
- For returns reporting AGI between \$1,000,000 and \$5,000,000 the percentage increased to 5.35% in 2009 from 4.02% in 2008.

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The following table illustrates the audit rates for various business entities:

Business Structure/Return Type	Total Assets	Percentage of 2009 Audits	Percentage of 2008 Audits
Corporations	\$250,000-\$1,000,000	1.3%	1.4%
Corporations	\$1,000,000-\$5,000,000	1.8%	2%
Corporations	\$5,000,000-\$10,000,000	2.7%	3.1%
Corporations	\$10,000,000 or greater	14.5%	15.3%
Partnership and S-corporations	All sizes	0.4%	0.4%
Estate and Trusts Income Tax	All sizes	0.2%	0.1%
Gift Tax Returns	All sizes	0.6%	0.4%

Filing Trends

The number of business passthrough entity returns filed in 2009 versus those filed in 2008 illustrates the growing popularity of these structures. Below is an overview of filing statistics:

- Partnership Tax Returns (Form 1065): Increase of 7.8%.
- S-corporation Tax Returns (Form 1120S): Increase of 1.3%.
- C-corporation or other corporation Tax Returns: Decrease of 2.4%.
- Individual Tax Returns (Form 1040, 1040A, 1040EZ, 1040EZT): Decrease of 6.6%.
- Estate and Trusts (Form 1041): Increase of 2.2%

If you have any questions regarding IRS audits, please contact Neil Lapidus at (612) 381-8720, Todd Lifson at (612) 381-8800, or Matt Brown at (612) 381-8712.

Source: Internal Revenue Service 2008 and 2009 Data Book and RIA Checkpoint