

What are your chances of being audited? IRS's 2013 data book provides some clues

The IRS has issued its annual data book, which provides statistical data on activities conducted by the IRS from October 1, 2012, to September 30, 2013, and includes information about returns filed, taxes collected, enforcement, taxpayer assistance and IRS's budget and workforce. In addition, the data book provides valuable information about how many tax returns IRS examines (audits) and what categories of returns the IRS is focusing resources on, as well as data on other enforcement activities, such as collections.

During Fiscal Year (FY) 2013, IRS collected almost \$2.9 trillion in revenue and processed 240 million returns, of which 151 million were filed electronically. Out of the 146 million individual income tax returns filed, almost 83% were e-filed. More than 118 million individual income tax return filers received a tax refund, which totaled almost \$312.8 billion. On average, the IRS spent 41 cents to collect \$100 in tax revenue during the fiscal year, matching lowcost results for 2008 and 2001. What are the chances of being audited? During FY 2013, IRS examined 0.8% of all returns filed in Calendar Year (CY) 2012, about 1.0% of all individual income tax returns filed in CY 2012, and 1.4% of corporation income tax returns (excluding S corporation returns).

Overall, in FY 2013, individual income tax returns in higher adjusted gross income (AGI) classes were more likely to be examined than returns in lower AGI classes. Of the 1,404,931 total number of individual income tax returns audited in FY 2013, roughly 34% (483,070) were for returns with an earned income tax credit (EITC) claim (up from the approximate 32.9% in the previous year). Only 24.5% of the individual audits were conducted by revenue agents, tax compliance officers, tax examiners and revenue officer examiners. That's slightly up than the 24.3% figure for the previous year. The 75.5% balance of the audits were correspondence audits, slightly down from the 75.7% for the previous year.

In general, total positive income is the sum of all positive amounts shown for the various sources of income reported on the individual income tax return and, thus, excludes losses.

For FY 2013, the audit rate for returns with total positive income of \$1 million or more was 10.8%, down from the 12.1% rate for FY 2012.

The following are selected audit rates:

- For business returns (for individuals not claiming the EITC and for other than farm returns) showing total gross receipts of \$100,000 to \$200,000, 3% of returns were audited in FY 2013, down from 3.6% in FY 2012.
- For business returns (for individuals not claiming the EITC and for other than farm returns) showing total gross receipts of \$200,000 or more, 2.7% of returns were audited in FY 2013, a decrease from 3.4% in FY 2012.
- Of the returns showing farm (Schedule F) income, 0.4% were audited in FY 2013 versus 0.5% in FY 2012.

- For nonbusiness returns showing total positive income of \$200,000 to \$1 million, 2.5% of returns were audited (down from 2.8% for the previous year); for business returns, 3.2% of such returns were audited (down from 3.7% for the previous year).
- For all corporate returns (other than Form 1120-S), the audit rate in 2013 was 1.4% (down from 1.5% in the previous year).
- For small corporations with balance sheet returns showing total assets of:
 - \$250,000 to \$1 million, the rate was 1.3%;
 - for \$1 to \$5 million, the rate was 1.4%; and
 - for \$5 to 10 million, the rate was 2.0%.

For FY 2012, the percentages were, respectively, 1.7%; 2.1%; and 2.6%.

- For large corporations with returns showing total assets of:
 - \$10 to \$50 million, the audit rate was 7.0%;
 - for \$50 to \$100 million, the rate was 15.5%;
 - for \$100 to \$250 million, the rate was 19.4%;
 - for \$250 to \$500 million the rate was 22.5%;
 - for \$500 million to \$1 billion, the rate was 27.5%;
 - for \$5 billion to \$20 billion, the rate was 60.9%; and
 - for \$20 billion or more, the rate was 91.2%.

For FY 2012, the percentages were, respectively, 10.5%; 20.7%; 23.2%; 22.7%; 22.7%; 31.4%; 45.4%; and 93.0%.

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