

ALERT

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2010 IRS Audit Statistics

Dear Clients and Friends,

We are frequently asked a simple question, “what are my chances of being audited?” While there is never a precise answer to this question, the IRS annually releases information about the audits that have been conducted in the previous year which provides a measuring stick. This information is compiled in an IRS publication called the Data Book. The IRS recently released its fiscal year 2010 Data Book.

Approximately 1.1 percent of the 143 million individual income tax returns filed in 2009 were selected for examination. Of these returns, it’s interesting to note that approximately 78 percent of the audits were conducted through correspondence.

Some of the highlights from the Data Book are as follows:

- Approximately 3.3 percent of the nonfarm business returns were audited in fiscal year 2010 for individuals filing a Schedule C and reporting gross receipts of more than \$200,000. For individuals filing a nonfarm business return on Schedule C and reporting gross receipts between \$100,000 and \$200,000, the number of returns audited was approximately 4.7 percent.
- Approximately 2.5 percent of the nonbusiness returns filed by individuals with positive income between \$200,000 and \$1,000,000 were audited in fiscal year 2010. This rate increased to 8.4 percent, a substantial jump from the 6.4 percent rate reported in fiscal year 2009, for individuals filing nonbusiness returns with positive income above \$1,000,000.
- In fiscal year 2010, 0.4 percent of the partnership and S corporation returns were selected for audit. This number is unchanged from the prior fiscal year. For small corporations with total assets of less than \$1 million, between \$1 and \$5 million, and between \$5 and \$10 million, the audit rates were 1.4 percent, 1.7 percent, and 3 percent, respectively. For large corporations with total assets greater than \$10 million, the overall audit rate increased to 16.6 percent in fiscal year 2010 from 14.5 percent reported in 2009.

The key to mitigating the risk of audit is to have adequate disclosure on the tax return. If you are taking a tax deduction that may be viewed as unusually high relative to past tax returns, it may be appropriate to attach additional information to your return to substantiate the claim. Moreover, good record keeping is also essential to supporting the information on the tax return in the event that questions are raised by a taxing authority.

If you have any questions about the IRS audit process or any other questions, please contact your Green Hasson Janks tax advisor at (310) 873-1600.

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