



The [Tax] Monster Under the Bed

Perhaps one of the most dreaded phrases in the United States is “IRS Audit.” People sweat over the possibility like over nothing else. But just how likely is an audit? Figures released as part of the IRS Data Book for fiscal year 2005 show that the chances of being audited went up for taxpayers in most categories, but that they’re still not significant.

In fact, out of more than 130 million individual returns filed in 2005, only 1.25 million were subject to audit (42% of these claimed the earned income tax credit). That is .93% of all individual returns. Corporations faced more scrutiny; over 20% of large corporations were audited. But only 1.24% of other corporations filing forms other than 1120S and .30% of S corporations were audited.

MORE AUDIT FUNCTIONS ROUTINE

One reason for the seemingly low rates of audit for most categories is that many review functions are now handled in a more routine manner. For example, the IRS regularly uses a computer-matching program to evaluate whether the available 1099s align with what a taxpayer has reported. Other automated error-checking, such as a screen for the alternative minimum tax, also reduces the number of likely audits.

SEVERAL DIFFERENT WAYS TO AUDIT

When the IRS decides to do an audit, it does not always resort to the old-fashioned, tension-laden meeting with an agent,

compliance officer or tax examiner. Increasingly, audits are done by correspondence, with compliance centers requesting additional information from taxpayers until the matter is resolved one way or another. 80% of audits are now handled this way.

AUDIT RATES RISING IN MOST CATEGORIES

Although the chances of an audit remain slim, as noted above, they are rising. However, audits actually declined for farmers and for individuals with total positive income of \$100,000 and up.

The IRS’s news release for the 2005 Data Book indicates that audits were up 21% in 2005 over 2004 numbers. Some specific figures from the Data Book appear below:

Taxpayer Category	2005 Audit %	2004 Audit %
Individuals w/total positive income of \$100,000+	1.19	1.39
Individuals filing Schedule C w/ gross receipts of \$100,000 +	3.65	1.86
S Corporations	.30	.19

