12 Things That Trigger IRS Audits

1. **Making too much money**
   The more money you make the greater the chance of an IRS audit. In 2012 individuals with income of $200,000 or higher had an audit rate of 3.70%. Have income over a million dollars chances you'll be audited are one-in-eight. Lower income filers have a less than 1% chance of being audited.

2. **Failing to report all taxable income**
   Make sure you report all income received. The IRS gets copies of all 1099s and W-2's you receive and the IRS computers are pretty good at matching numbers on forms to the income shown on your return.

3. **Taking large charitable deductions**
   If you have large charitable deductions that are disproportionately to your income causes red flags with the IRS and triggers audit. Another thing the IRS looks for is if donated property is over $500 in value, must file Form 8283 and have an appraisal done

4. **Claiming the home office deduction**
   A home office deduction is one way to really save on taxes because you're able to deduct a portion of your rent, utilities, insurance, phone bills, and other costs related to your home office. There is a strict rule that to claim this deduction you must have an allocated area of your house that is separate from everything else and is exclusively used for that purpose. Beginning with the 2013 returns the IRS has simplified the option for claiming this deduction. The write off can be based on a standard deduction rate of $5 per square foot of space, used for business purposes only, with a maximum deduction of $1,500.

5. **Claiming rental losses**
   Usually, the passive loss rules prevent the deduction of rental real estate losses. There are two important exceptions. Active participants in the renting of your property can deduct up to $25,000 of loss against other income. But the $25,000 allowance is phases out when adjusted gross income exceeds $100,000 and disappears entirely once AGI reaches $150,000. The Second exception applies to real estate professionals that spend more than %50 of their working hours and 750 or more hours each year materially

participating in such activities as, real estate developers, landlord, brokers, and the like. They can write off losses without limitation.

6. **Deducting business meals, travel and entertainment**
   Large deductions for meals and business travel are always triggers for audit. Large write off's set off alarms with the IRS especially when they are quite extreme for the type of business. To have a qualifying meal or entertainment deductions, you must keep detailed records about who was there, what business topic was discussed, the location it takes place, and the expense associated to it. It is also a requirement to keep all receipts for expenditures over $75 or for lodging while traveling or your deduction is not accepted.

7. **Claiming %100 business use of a vehicle**
   The IRS understands that it is very unusual for a vehicle to be used %100 for business purposes especially if it is your only vehicle and no other vehicles are available for personal use. That causes extreme red flags and will trigger an audit.

8. **Writing off a loss for a hobby activity**
   Another way to get at the top of the IRS audit list would be to file a Schedule C with large losses. Especially if the activity generating the loss sounds like a hobby – car racing, horse breeding, painting, performing artist, etc – the IRS is on the lookout. Agents have been specially trained to figure out filers that are improperly deducting hobby losses.

9. **Running a cash business**
   Cash-intensive businesses are tempting targets triggering audits. Taxis, salons, restaurants, car washes, the IRS has a guide for agents to use when auditing cash-intensive business and note various tell tell signs of unreported income.

10. **Failing to report a foreign bank account**
    The IRS is extremely interested in individuals with offshore accounts, especially those in tax havens. The IRS taxing authority has had success getting foreign banks to disclose account information and have implemented programs to encourage individuals with undisclosed foreign accounts to come forward in exchange for reduced penalties. Failure to report foreign bank accounts can lead to severe penalties, and is on the top of the IRS list of priorities.

11. **Engaging in currency transactions**

The IRS gets reports on cash transactions in excess of $10,000 involving banks, casinos, car dealers, and other businesses. Currency transactions are a valuable source of audit leads for sniffing out unreported income.

12. Taking higher-than-average deductions

If your deduction is disproportionately large compared to your income, the IRS may look at your return. Make sure you have receipts and proper documentation incase this happens.