Red Flags for Audits

As tax season comes to a close, many taxpayers put the IRS out of their mind until the next tax season rolls around. However, some taxpayers aren't so lucky as they are recipients of dreaded IRS letter stating, *"Dear Taxpayer, Some of the information that you provided to us does not agree with information we received from other sources."*

In actuality, the percentage of taxpayers who will face an audit is fairly small compared to the number of tax returns filed — overall, the examination rate of tax returns in 2006 was just under 1 percent. However, some taxpayers are more likely than others to face an audit based on the information provided on their tax return. So what triggers a red flag for the IRS? While audits can be done for a number of reasons, often the IRS will take a closer look if the following applies:

- Higher incomes.
- Income other than basic wages, for example, contract payments.
- Unreported income, such as investment returns.
- Home-based businesses, especially when in addition to salary income and home-office deductions.
- Noncash charitable deductions.
- Large business meal and entertainment deductions.
- Excessive business auto usage.
- Losses from an activity that could be viewed as a hobby rather than a business.
- Large casualty losses.

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