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BUSINESS COURIER

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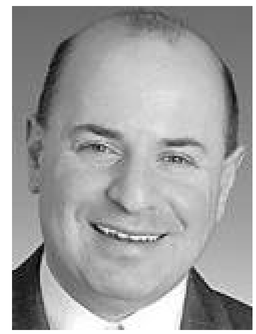
IRS stepping up audits, especially of wealthy filers

Business Courier of Cincinnati - by Steve Watkins Staff Reporter

If you're making more than $1 million, don't be surprised if you get a visit from the **Internal Revenue Service** later this year.



Howard Levy
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Even if individual income tops $100,000, the odds of an audit go up exponentially.

The **IRS** is doing more audits than ever, and the chances of getting hit with an audit have a lot to do with income level or the type of business an individual runs.

"Audit rates are increasing rapidly," said Howard Levy, a tax lawyer with Blue Ash firm **Voorhees & Levy**. "It's coming back significantly to where it used to be."

The audit rate started dropping in 1998, Levy said, thanks to changes to the law and restructuring at the IRS. It hit bottom in 2000, when just 0.5 percent of individual tax returns were audited. But it's been rising, and it doubled that rate by 2007, to 1 percent.

It's worse for the wealthy. Audits of those who make more than $1 million a year jumped 84 percent from fiscal 2006 to 2007, according to IRS figures. Those in that category stand a 9 percent likelihood of being audited. That's nine times as likely as the average taxpayer.

But when it comes to businesses, size matters in a different way. The IRS is stepping up audits on smaller and mid-sized firms.

"We have increased our focus on mid-market corporations - those with assets between $10 million and $50 million," the IRS said in a statement.

That's a departure from the recent past, said Ken Schoster, director of tax at **Rippe & Kingston** in Mount Adams.

"They had left that group alone for some time," he said.

The IRS targets sole proprietorships that report income on Schedule C, too, Levy said. They stand a 6 percent chance of getting audited.

What can business owners do? Start by keeping records for everything. The IRS looks for poor recordkeeping and unreported income, especially for cash-based businesses, said Schoster. Business mileage and meals are key areas, Levy added.

It's best to use a professional tax preparer, too. The IRS typically finds more adjustments in the tax owed by people who did their own taxes, Schoster said.

High-income individuals can lessen their chances of an IRS visit by avoiding round numbers on charitable contributions, Levy said. And deductions need to make sense. If you made $100,000 last year but claimed $30,000 in charitable contributions, the IRS might raise an eyebrow.

swatkins@bizjournals.com | (513) 337-9441