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What are your chances for being audited? Latest IRS data book provides some clues

2006 Data Book (Pub 55B, March 2007); IR 2007-63

IRS has issued its annual data book, which provides statistical data on its fiscal year 2006 activities. As this article explains, the data book provides valuable information about how many tax returns IRS examines (audits), and what categories of returns IRS is focusing its resources on, as well as data on other enforcement activities, such as collections.

What are the chances of being examined? A total of 1,283,950 individual income tax returns were audited during fiscal year 2006 (Oct. 1, 2005 through Sept. 30, 2006) out of a total of 132.3 million individual returns that were filed in calendar year 2005. This works out to 0.97% of all individual returns that were filed, and is more than double the number examined in FY 2000.

Of the total number of returns audited, 517,617 (40.3%) were selected on the basis of an earned income tax credit (EITC) claim.

Only 23.6% of the audits were conducted by revenue agents, tax compliance officers, and tax examiners.



RIA observation: The bulk of the audits (about 76%) were correspondence audits.

The no-change rate (returns accepted as filed after examination) was 14% for returns examined by revenue agents, tax compliance officers, or tax examiners, and 17% for compliance centers.

About 584,000 individual returns showed gross receipts from farming (Schedule F). Of this group, only 2,895 (0.5%) were audited in 2006.

Examinations of business tax returns grew for the second year in a row, reaching over 52,000 in 2006.

The following table shows the chances of being examined in fiscal year 2006 as compared to fiscal year 2004. The figures include correspondence examinations, office examinations and field examinations. The data is classified by types and amounts of income, type of returns, etc.

	Percentage of returns audited	
	2006	2004
Individuals--Nonbusiness (based on total positive income (TPI))		
Under \$25,000 (1040A)	0.50%	0.50%
All other returns by size of TPI		
Under \$25,000	1.49	1.26

\$25,000 to under \$50,000	0.43	0.43
\$50,000 to under \$100,000	0.62	0.44
\$100,000 and over	1.13	1.39
Individuals filing Schedule C showing gross receipts as indicated		
Under \$25,000	3.78	3.15
\$25,000 to under \$100,000	2.21	1.47
\$100,000 and over	3.90	1.86
Individuals filing Schedule F showing gross receipts as indicated		
Under \$100,000	0.42	0.91
\$100,000 and over	0.58	1.61
Fiduciary (Estate and Trust Income)	0.10	0.12
Corporations (based on assets)		
Under \$10,000,000	0.80	0.32
\$10,000,000 and over	18.60	16.74
S Corporations	0.38	0.19
Partnerships	0.36	0.26
Estate tax	9.66	7.41
Gift tax	0.77	0.69



RIA observation: The above table compares FY 2006 figures to FY 2004 figures, rather than to FY 2005 figures, because IRS has indicated that the information in the 2005 Data Book understated examinations of all taxpayers with TPI of \$200,000 or more and overstated examinations of taxpayers with TPI between \$100,000 and \$200,000. It has also said that the tables understated examinations of estates with gross estate less than \$1,500,000 and overstated examinations of estates worth between \$1,500,000 and \$5,000,000. These FY 2005 tables are being revised to provide corrected estimates for all individual income tax returns with TPI of \$100,000 or more and for estates of \$5,000,000.

IRS activity on other fronts. Here's a roundup of over valuable information carried in the new IRS Data Book.

Penalties. In fiscal year 2006, IRS assessed 25.9 million civil penalties against individual taxpayers. Of these, 15.4 million (59.3%) were for failure to pay, followed by 6.57 million (25.3%) for underpayment of estimated tax. There were 272,321 (1.05%) for "accuracy penalties"—assessments of penalties under Code Sec. 6662 for negligence, substantial understatement of income tax, substantial valuation misstatement, substantial overstatement of pension liabilities, and substantial estate or gift tax valuation understatement.

On the corporation side, there were a total of 701,785 penalty assessments, 83.4% for either failure to pay or underpayment of estimated tax.

Offers in compromise. In fiscal year 2006, 59,000 offers in compromise were received by IRS, and 15,000 (25.4%) were accepted. Over recent years, these numbers have been dropping; in 2005 for example, 74,000 offers in compromise were received by IRS, and 19,000 (25.6%) were accepted.

Criminal cases. IRS initiated 3,907 criminal investigation in fiscal year 2006. There were 2,720 referrals for prosecution and 2,019 convictions. Of those sentenced, 81.7% were incarcerated. By way of comparison, in fiscal 2005, IRS initiated 4,269 criminal investigation, and there were 2,859 referrals for prosecution and 2,151 convictions. Of those sentenced, 83% were incarcerated.

Information returns. IRS received a total of 1.561 billion information returns in fiscal year 2006, including Forms 1098 (mortgage interest, student loan interest, and tuition), 1099 (interest, dividends, etc.), W-2 (wages), W-2G (gambling winnings), and Schedules K-1 (pass-through entities). Of the total, only 3.6% were submitted on paper. Most of the information returns were filed electronically or on magnetic tape.

IRS also notes that during fiscal year 2006, it collected more than \$2.2 trillion in tax and processed over 228 million returns. Over 80 million returns, including 54.3% of individual tax returns, were filed electronically in 2006. Over 108 million individual income tax return filers received tax refunds totaling \$243 billion. In fiscal year 2006, IRS spent an average of 42¢ to collect each \$100 of tax revenue.

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