

The “Daily Plan-It”™

SHUMATE BROKERAGE CORP.

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Playing the Odds on an IRS Audit

If the thought of an IRS audit seems scarier than playing Texas Hold ‘Em with a group of top-ranked card sharps, think again. The odds are better that you could beat the IRS than you could take home all the chips at the World Series of Poker. According to a study done by the Government Accountability Office, taxpayers who took their cases to the IRS Appeals Division won relief 41 percent of the time.

The Dreaded Audit

It’s not unreasonable to be anxious about the possibility of an IRS audit. In 2005, some 1.2 million returns were audited, which was up 20 percent from 2004. And they plan to raise that number in 2006.

If you’re unhappy with the outcome of such an audit, ask the appeals office to review your case. Appeals officers are authorized to settle cases based on their judgment about what could likely happen if the case should go to court. Therefore, they tend to be reasonable when searching for a settlement.

According to a recent article in the *Wall Street Journal*, the Appeals Division has about 1,900 employees, and closes more than 100,000 cases each year. That’s close to 80 to 85 percent of all the cases that pass before them. Your odds on a favorable settlement are excellent.

Avoid the Audit Altogether

While it’s nice to know that the odds of receiving some tax relief through an appeal are on your side, it’s even nicer to avoid being audited in the first place. The following red flags may turn the taxman’s focus on your return.

1. Excessive charitable contributions. Be reasonable with your donations. Nothing says an audit is coming like charitable gifts that are disproportionate with your income. Generosity is beautiful, but keep it within your means.

2. High income. There’s not much you can do about it. If your income is more than \$100,000, you have a 1.41 percent chance of being audited. Reducing your income isn’t much of a solution; taxpayers with incomes under \$25,000 were the second highest group targeted for audits by the IRS.

3. Self-employed deductions. Since 2001, the IRS has scrutinized the returns of the self-employed. Be honest, and back-up all your deductions with receipts.

4. Errors. Nothing screams audit like making careless omissions on your return, or attaching unnecessary documents. File electronically, and keep your forms as simple as possible.

Audits are never pleasant. But it’s good to know that you can come in with a fighting chance for success if you disagree with the outcome.

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