

**THOMAS M. GILL & COMPANY**  
CERTIFIED PUBLIC ACCOUNTANTS  
838 SHOEMAKER AVENUE  
WEST WYOMING, PA. 18644

Thomas M. Gill, C.P.A.  
Robert J. Gill, C.P.A.  
William T. Gill, C.P.A.

Telephone 570.693.2460  
Facsimile 570.693.2615  
Website: [www.gillcpas.com](http://www.gillcpas.com)

## **RED FLAGS THAT INCREASE THE PROBABILITY THAT IRS WILL EXAMINE A TAX RETURN**

- A. Making too much money. While the overall exam rate is around 1%, if income is over \$200,000 the rate goes up to 3.7%. Returns with incomes in excess of \$1,000,000 will get a visit from the IRS 12.5% of the time.
- B. The IRS computers have gotten very good at matching 1099s and W-2s to the return. Carefully review your tax return to determine if all 1099s and W-2s have been included.
- C. Large charitable deductions compared to the averages will raise a red flag.
- D. The home office deduction continues to be a major issue for IRS not because it is a complicated deduction but because many taxpayers have poor records and do not pass the "regular and exclusive use" IRS standard.
- E. Rental real estate losses have grown into an especially thorny issue in the past several years. If you are a 'real estate professional' the IRS continues to look at these returns more closely; make sure the time records are in good order to prove material participation.
- F. Nothing is more cherished than the business meals, travel and entertainment deduction, but the record keeping standards are high and IRS often strikes gold when challenging the deduction on the self-employed tax payer's return.
- G. Claiming 100% of vehicle usage is sure to cause the auditor to take a second look. Taxpayers need to keep complete records in this area.
- H. Filing a Schedule C with large losses consistently makes the IRS think hobby loss. Businesses experience losses but if it looks like those businesses might be fun, get ready for the IRS challenge. Put together a business plan for any business that is part-time or appears to have a significant element of personal pleasure.
- I. Businesses that are primarily cash income continue to be a favorite target of the IRS.
- J. Foreign bank accounts are of significant interest to the IRS, and over the past several years the IRS has had a lot of success in getting foreign institutions to disclose account information. Forms may need to be filed to disclose foreign investments.