Top 10 Tips to Avoid an IRS Audit for 1040 Form Filer

A taxpayer is unlikely to get audited by any one of the below ways alone, but a combination of two or more of below is definitely inviting the IRS to audit you!

1. Unreported income:
Remember any company whom you work for has to by law provide you with either W-2 or a 1099-Misc or around January 31st. Thus, if you file a return but fail to report this income, remember the W-2 and 1099-Misc is also being simultaneously reported to IRS, and so you're screaming for an IRS audit. This is also true for your bank interest, stock dividends, and capital stock transactions from stock trading activities, these must also be reported as they too are being reported to the IRS.

2. Incomplete or poorly prepared tax returns:
If you file a tax return with missing or incomplete information along with several mathematical errors, the IRS computer will not be able determine what you've filed, then you are definitely inviting an IRS agent to investigate these omissions and error.

3. Consistently using estimates or round numbers on your deductions:
If a taxpayer is consistently using round numbers or estimates, it really implies that the taxpayer has been either exaggerating or has poor records to substantiate the deductions. Most CPA's and tax professionals recommend the use of exact numbers

4. Reporting income that appears too low to support taxpayer lifestyle:
A taxpayer who reports mortgage and property tax expenses on his schedule A but showing income from employment incapable of supporting these deductions, this too will be inviting an IRS audit. A taxpayer who consistently shows very little taxable income, and hence a small tax liability due but has substantial savings and investment income could also trigger an audit.

5. Drastic changes in income:
Substantial income fluctuations can sometimes indicate that income was underreported somewhere. IRS loves to investigate strange income fluctuations.

6. Taxpayer claiming excessive charitable contributions:
There are no average percentages in place to determine what is unreasonable, but most National tax publications maintain a safe percentage is 2-5% percentage a year. But, now in 2006, most CPA's will now demand a copy of a receipt or canceled check showing proof of charitable deduction before reporting this contribution to charity in 2006.

7. Employee Business Expenses:
Employees that claim high amounts of employee business expenses, especially if these expenses appear to be mostly commuter expenses are most susceptible for audits. For example, claiming travel expenses for daily commuting, parking or train tickets to travel to work in metro cities. As such, these are generally personal expenses if the taxpayer is a W-2 employee.

8. Claiming Auto mileage:
Taxpayers keep claiming auto mileage without really understanding the law. Taxpayers can claim auto expenses in connection to your job for which the employer does not reimburse them. This is really rare in this day and age when gas prices are very high. Still, it is possible for say an employee to make various trips to client sites for which the employer does not provide reimbursements. However, on the personal tax return the taxpayer generally claims excessive mileage that includes commuting mileage that is mileage from home to work. This is strictly not allowable per IRS tax code.

9. Flagrantly ignoring to file individual tax returns or late returns without proper extensions:
The IRS has consistently audited individual taxpayers who have flagrantly disregarded the law, and consistently ignored the IRS filing deadlines for filing the individual tax returns. All IRS correspondences must be responded timely as ignoring those leads to more investigations and a potential invitation of an audit. All tax returns must be filed on a timely basis along with timely extensions.

10. Claiming office at home expense:
This is generally the most common area of deduction that results in triggering IRS audits. The reason is that the office at home expenses are allowable under some very strict rules. The office must be used exclusively and regularly for business purposes. The so called designated area in the house must be generally a room where the family do not entertain, do not use as a play room for the kids and definitely not be used as a bedroom.