

Apr 14, 11:22 AM EDT

CHANCES OF GETTING AUDITED BY IRS LOWEST IN YEARS

BY STEPHEN OHLEMACHER
ASSOCIATED PRESS

WASHINGTON (AP) -- As millions of Americans race to meet Tuesday's tax deadline, their chances of getting audited are lower than they have been in years.

Budget cuts and new responsibilities are straining the Internal Revenue Service's ability to police tax returns.

This year, the IRS will have fewer agents auditing returns than at any time since at least the 1980s.

Taxpayer services are suffering, too, with millions of phone calls to the IRS going unanswered.

"We keep going after the people who look like the worst of the bad

guys," IRS Commissioner John

Koskinen said in an interview. "But there are going to be some people that we should catch, either in terms of collecting the revenue from them or prosecuting them, that we're not going to catch."

Better technology is helping to offset some budget cuts.

If you report making \$40,000 in wages and your employer tells the IRS you made \$50,000, the agency's computers probably will catch that.

The same is true for investment income and many common deductions that are reported to the IRS by financial institutions. But if you operate a business that deals in cash, with income or expenses that are not independently reported to the IRS, your chances of getting caught are lower than they have been in years.

Last year, the IRS audited less than 1 percent of all returns from individuals, the lowest rate since 2005. This year, Koskinen said, "The numbers will go down."

Koskinen was confirmed as IRS commissioner in December. He took over an agency under siege on several fronts. Last year, the IRS acknowledged agents improperly singled out conservative groups for extra scrutiny when they applied for tax-exempt status from 2010 to 2012. The revelation has led to five ongoing

investigations, including three by congressional committees, and outraged lawmakers who control the agency's budget.

The IRS also is implementing large parts of President Barack Obama's health law, including enforcing the mandate that most people get health insurance. Republicans in Congress abhor the law, putting another bull's-eye on the agency's back.

The animosity is reflected in the IRS budget, which has declined from \$12.1 billion in 2010 to \$11.3 billion in the current budget year. Obama has proposed a 10 percent increase for next year; Republicans are balking.

Rep. Ander Crenshaw, R-Fla., chairman of the House subcommittee that oversees the IRS budget, called the request "both meaningless and pointless" because it exceeds spending caps already set by Congress.

Koskinen said he suspects some people think that if they cut funds to the IRS, the agency won't be able to implement the health law. They're wrong, he said.

The IRS is legally obligated to enforce the health law, Koskinen said. That means budget savings will have to be found elsewhere.

Koskinen said he can cut spending in three areas: enforcement, taxpayer services and technology. Technology upgrades can only be put off for so long, he said, so enforcement and taxpayer services are suffering. Last year, only 61 percent of taxpayers calling the IRS for help got it. This year,

Koskinen said he expects the numbers to be similar. To help free up operators, callers with complicated tax questions are directed to the agency's website.

"The problem with complicated questions is they take longer," Koskinen said.

Your chances of getting audited vary greatly, based on your income. The more you make, the more likely you are to get a letter from the IRS.

Only 0.9 percent of people making less than \$200,000 were audited last year. That's

the lowest rate since the IRS began publishing the statistic in 2006.

By contrast, 10.9 percent of people making \$1 million or more were audited. That's the lowest rate since 2010.

Only 0.6 percent of business returns were audited, but the rate varied greatly depending on the size of the business. About 16 percent of corporations with more than \$10 million in assets were audited. Most people don't have much of an opportunity to cheat on their taxes, said

Elizabeth Maresca, a former IRS lawyer who now teaches law at Fordham University.

Your employer probably reports your wages to the IRS, your bank reports interest income, your broker reports investment income and your lender reports the amount of interest you paid on your mortgage.

"Anybody who's an employee, who gets paid by an employer, has a limited ability to take risks on their tax returns," Maresca said. "I think people who own their own business or are self-employed have a much greater opportunity (to cheat), and I think the IRS knows that, too."

One flag for the IRS is when your deductions or expenses don't match your income, said Joseph Perry, the partner in charge of tax and business services at Marcum LLP, an accounting firm. For example, if you deduct \$70,000 in real estate taxes and mortgage interest, but only report \$100,000 in income. "That would at least beg the question, how are you living?" Perry said.

Koskinen said the IRS could scrutinize more returns - and collect billions more in revenue - with more resources. The president's budget proposal says the IRS would collect an additional \$6 for every \$1 increase in the agency's enforcement budget. Koskinen said he makes that argument all the time, but for some reason, it's not playing well in Congress.

"I say that and everybody shrugs and goes on about their business," Koskinen said.

"I have not figured out either philosophically or psychologically why nobody seems to care whether we collect the revenue or not."

Follow Stephen Ohlemacher on Twitter: [HTTP://TWITTER.COM/STEPHENATAP](http://twitter.com/STEPHENATAP)

© 2014 THE ASSOCIATED PRESS. ALL RIGHTS RESERVED. THIS MATERIAL

MAY NOT BE PUBLISHED, BROADCAST, REWRITTEN OR REDISTRIBUTED.

Learn more about our [PRIVACY POLICY](#) and [TERMS OF USE](#).