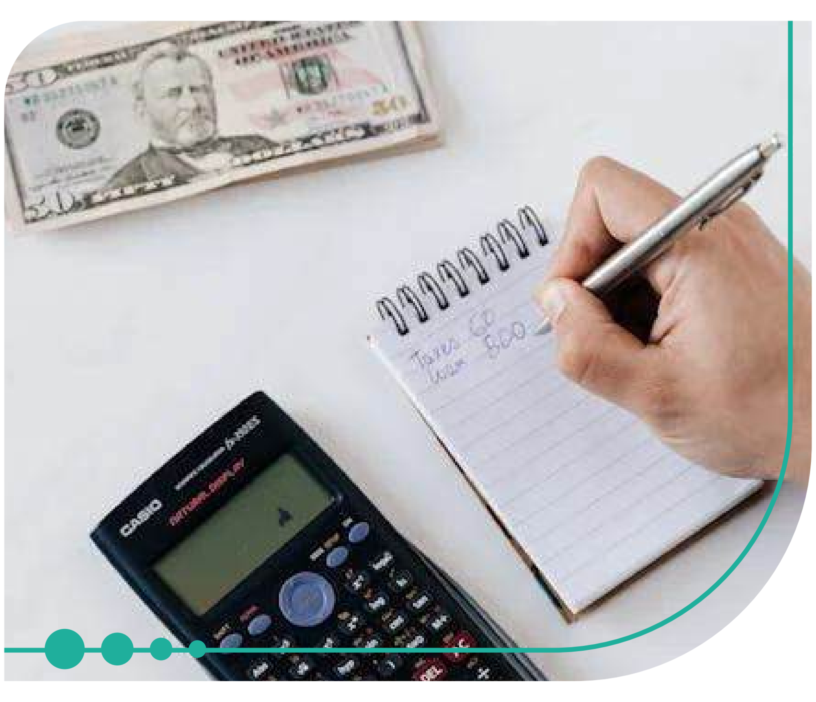
13 Factors Raising Your Client's IRS Audit Risk

1. High Income

The more money your client makes, the more attention they attract from the IRS. Why? The federal agency sees high earners as having more potential for unpaid taxes. Advise them to carefully document all income and deductions.

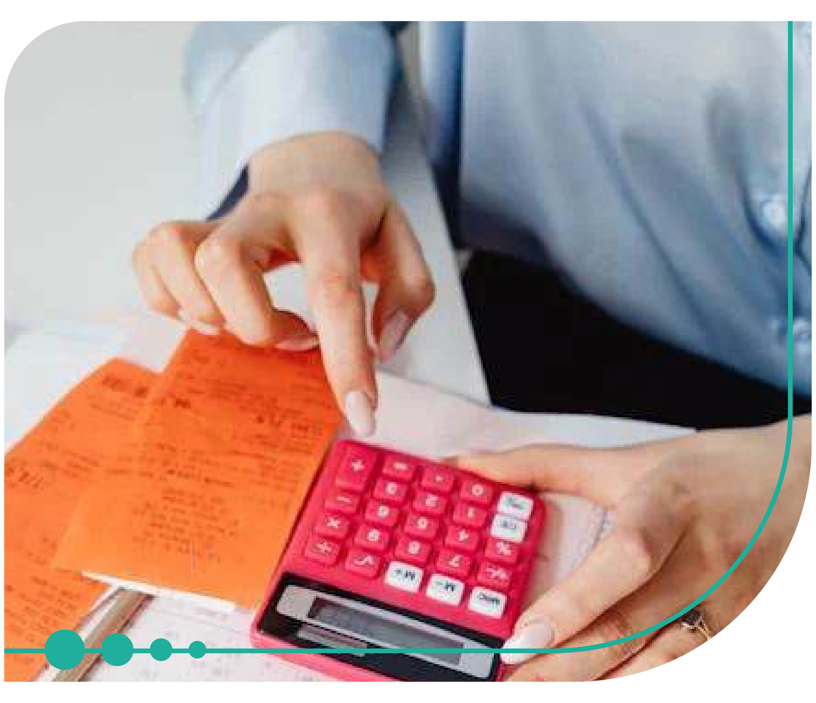


2. Earned Income Tax Credit (EITC) Claims

The IRS keeps a close eye on EITC claims due to frequent abuse. Make sure your clients fully qualify before claiming the credit. Double-check income levels and dependents.

3. Large Deductions

Claiming deductions that don't match a client's income level can quickly raise red flags with the IRS. Advise your clients to keep detailed records and receipts for all donations, especially for higher-value items.



4. Claiming Business Expenses for Personal Use

Claiming personal expenses as business deductions can trigger an audit, so the IRS expects clear separation between the two. Advise clients to keep detailed records and proper documentation for legitimate business expenses, such as vehicle use, home offices, and meals.

5. Home Office Deduction

The home office deduction is often scrutinized by the IRS and requires the office space to be used exclusively for business. If your client's home office doesn't meet this requirement, it could trigger an audit. Encourage clients to understand the criteria and maintain detailed records to justify the claim.

6. Cryptocurrency Transactions

Many small business owners overlook the need to report gains and losses from crypto transactions, which can lead to penalties during an audit. Help clients track all crypto transactions and use Form 8949 to report sales, along with Form 1040 Schedule D for gains or losses when filing.

7. Unreported Income

The IRS matches W-2s, 1099s, and other income forms with tax returns, so discrepancies can trigger an audit. Ensure clients report all income, including from side gigs or hobbies under $600, and maintain thorough records for cash businesses to avoid suspicion.

8. Unexplained Wealth or Lavish Spending

If a client's lifestyle doesn't match their reported income, the IRS may notice and trigger an audit. Advise clients to ensure their income aligns with their lifestyle or be ready to explain discrepancies with proper documentation.

9. Large Cash Transactions

Businesses must file Form 8300 with the IRS for any cash transactions over $10,000. Failing to do so can draw IRS scrutiny, as cash payments are often harder to track. Advise your clients to keep detailed records and ensure compliance with reporting requirements to avoid audit risks.

10. Alimony Deductions

For divorces finalized after 2018, alimony payments are no longer deductible, and recipients don't need to report the payments as income. Claiming alimony deductions under outdated rules can trigger an IRS review, so make sure your clients are clear on the current regulations.

11. Round Numbers

Round, even numbers on tax returns, especially in $100 or $1,000 increments, can raise red flags with the IRS. Encourage clients to use bookkeeping software compatible with your preparer tax software to ensure accurate reporting and avoid triggering further investigation.

12. Business Losses

When clients report losses year after year, the IRS may consider it a hobby rather than a business. Ensure they have strong documentation to support genuine struggles and clarify the distinction between a business and a hobby for tax purposes.

13. Early Withdrawals from Retirement Accounts

Early withdrawals from retirement accounts can trigger an audit, as the IRS is strict about them unless specific conditions are met. Clients should report early withdrawals, pay any penalties, and document the reason to avoid issues.