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What Gets the Attention of IRS

Two of the more high-profile cases of tax evasion are the IRS investigation of Credit Suisse bank and the imprisonment of rapper Ja Rule. Credit Suisse was investigated for allegedly helping American taxpayers hide their income in offshore bank accounts just like what another Swiss bank, UBS did in 2009. Multi-award winning rapper Ja Rule was convicted of tax evasion on \$3 million he earned and sentenced to 28 months' jail.

Do these highly publicized cases mean that the IRS is increasing its battle against of tax evasion by individuals and businesses?

The short answer is, it depends.

There are some cases where the surveillance by the IRS seems heightened. These cases mostly have to do with certain occupations, level of income and the kinds of claims made. It appears that the government has been putting extra pressure on the IRS to enforce tax rules especially when money is in short supply.

Congress issued certain directives to the IRS over the last few years that saw the number of key IRS enforcement officers drop from 25,215 to below 20,000 by 2003. But lately, it has grown to 22,710 officers. In addition, the IRS has implemented new programs to identify tax issues like the Global High Wealth Industry Unit, where IRS officers work in teams to run through rich taxpayers' profiles.

Some of the measures under these new programs include reviewing credit card statements and comparing them with incomes of taxpayers. If an exorbitant amount of spending disproportionate with the amount of earning is found, it would raise a red flag.

The IRS likes small and inexpensive audits on individuals or small businesses because of the influence they create on others. Although such audits generally bring in only a few hundred dollars, friends and family of those audited tend to be more tax-compliant.

In general, the audit rate last year was 1.11% of all taxpayers. The previous year, it was 1%. But if you are among the wealthier taxpayers, the IRS pays you more attention. Among those who earn above \$200,000, 3.1% were audited last year whereas for those earning above \$1 million, the audit rate was 8.1%. The IRS focuses more on businesses where you file a Schedule C form. The audit rate is a little more than 4%. The IRS estimates that every year, business owners under-report their taxes to the tune of about \$68 billion.

Other areas that get the attention of the IRS are returns claiming refundable tax credits, over-reporting deductions and offshore accounts.