



March 30, 2011

More Tax Audits for the Rich

Here are some interesting statistics. The number of audits for those considered super rich (earning at least \$10 million per year) has increased by 73% last year and involved more than 18% of taxpayers in the highest income bracket.

This is a reversal of the popular notion that the rich get away with just about anything while the poor average guy foots the bill. According to Thomas Cooke, professor of accounting and business law in Georgetown University, "It's true that historically the low income earner was more likely to be subject to an examination than a high income earner, but now the higher income taxpayer is getting the greater focus."

As for those earning between \$5 million and \$10 million per year, almost 12% of these taxpayers were audited last year. This represents a spike of 54% in number of audits from the previous year. At the same time, the number of millionaire taxpayers making at least \$1 million per year also increased last year by 15%. This move of scrutinizing the rich taxpayers is seen as part of the IRS' efforts in improving its image among average taxpayers who are of the opinion that the IRS favors the rich. These wealthy taxpayers can often afford to engage expensive tax preparers and

accountants to help them beat the system whereas the average taxpayers can only afford tax software like TurboTax or do their own tax returns.

In addition, increasing the number of audits among the rich also means more revenue in the IRS coffers. Income from tax audits has jumped 18% to \$57.6 billion last year. The IRS now has a specialized unit within its organization called the Global High Wealth Industry unit that monitors wealthy individuals. The unit was set up last year.

But money from audits often does not come in immediately as some audits take years to resolve. Hence, the IRS should be monitoring how much money their enforcement efforts bring in over the next few years. Still it is unlikely that the IRS would reduce the number of audits if they prove to be effecting in bringing in substantial revenue.

Although those who make millions were most affected by audits, the IRS has actually increased their number of audits for everyone across the board. Last year, the IRS audited 1.58 million tax returns or about 1.11% of all the returns it received. This means although the chances of you getting audited are not high, still it is 8% higher compared to 2009 and 100% higher than in 2001.