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The IRS audit undergoes a lot of processes, and there are steps that the IRS takes in order to make sure that everything is in order. When you submit your tax returns, the IRS verifies the return to see if the report is correct. What tax return the IRS will choose to verify does not depend on any one particular thing, but there are various factors that govern this choice. In fact, this choice also does not indicate any intention of the IRS to find a dishonest taxpayer. Some of the inspections also bring out returns that may be entitled to certain refunds.

How IRS selects returns for audit

The methods used in audit internal revenue system are as follows:

1. Potential tax abusers: The IRS tries to identify potential tax abusers who may be involved in tax avoidance transactions to find out if they have filed their returns honestly.

2. Computer scoring: There are computer programs that provide a certain numeric score to the individuals who file tax returns. The IRS sometimes selects returns for audits based on these scores. There is a Discriminant Function System (DIF) score rating any possibility for change, depending on the past experiences about returns of the same nature. The IRS have their personnel screen the returns with the highest scores, and then they pick a few of them for IRS audit after they have identified certain items on the returns that they think would do good with some review.

3. Big sized corporations: It is in the nature of the IRS to audit certain big corporations on an annual basis.

4. Matching information: Sometimes a tax auditor will pick an income tax return if they find that the information provided on the return, and what it says on their forms, do not match.

5. Relevant exams: Sometimes IRS audit happens on those returns that may be involved in transactions with other taxpayers, like investors or business partners who may also have been selected for an audit.

6. Other factors: Sometimes there are local compliance projects requiring approval from a higher management and the returns that these projects file may sometimes be subject to audit by the IRS.

How to avoid an IRS audit

There are certain ways in which you can file your returns that can increase your chances of facing an audit. If you are made aware of those ways, maybe you could avoid them in the future and, hence, be able to avoid IRS audit too.

1. Having unreported income: If you are hiding a source of income to the IRS you could be in for some trouble. The IRs will find out if you have hidden, or innocently, not reported an income and take the necessary steps.

2. Cash income: The IRS is completely aware that some people who get cash incomes are likely to not report that income. If you have not reported that income you could be facing an audit.

3. Higher income: The higher your income, the more likelihood of your getting audited.

4. Self-employment: Individuals have the luxury of deducting a lot of income from their returns when they are self-employed and the IRS knows it. This also increases your chances of audit.

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Jacob Smith has written several articles about a IRS audit and a tax auditor in case you are in a situation. You can find more articles by this writer on a audit internal revenue.

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