



# **Pioneer Bank & Trust**

## **Trust & Investments**

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## Playing the audit lottery

Although government spending in general seems to be on an inevitable upward track, the funding for the IRS has been reduced in recent years. The reduction stems in part from a Congressional belief that some IRS resources have been wasted in the past and, in part, by frustration over a lack of cooperation by the IRS with Congressional investigations into political bias at the agency.

Whatever the reason, the fact is that the head count at the IRS is down about 13,000 from its high water mark. That has made it harder for taxpayers to get through to the IRS with their questions. It also has meant a reduction in the number of audits that the IRS conducts.

In 2010 about 1.11% of all tax returns were audited, according to the IRS Data Book. By 2014 just 0.83% were audited. However, the decline in audit coverage was not spread evenly among all income categories, as shown in the table below.

### What were the odds of an audit in 2014 (individual income tax)?

| Adjusted gross income          | Percentage of returns | Percentage audited in 2014 | Percentage audited in 2010 |
|--------------------------------|-----------------------|----------------------------|----------------------------|
| No adjusted gross income       | 1.83                  | 5.26                       | 3.19                       |
| \$1 under \$25,000             | 39.08                 | 0.93                       | 1.18                       |
| \$25,000 under \$50,000        | 23.32                 | 0.54                       | 0.73                       |
| \$50,000 under \$75,000        | 13.12                 | 0.53                       | 0.78                       |
| \$75,000 under \$100,000       | 8.33                  | 0.52                       | 0.64                       |
| \$100,000 under \$200,000      | 10.70                 | 0.65                       | 0.71                       |
| \$200,000 under \$500,000      | 2.87                  | 1.75                       | 1.92                       |
| \$500,000 under \$1,000,000    | 0.48                  | 3.62                       | 3.37                       |
| \$1,000,000 under \$5,000,000  | 0.24                  | 6.21                       | 6.67                       |
| \$5,000,000 under \$10,000,000 | 0.02                  | 10.53                      | 11.55                      |
| \$10,000,000 or more           | 0.01                  | 16.22                      | 18.38                      |

Source: IRS Data Books for 2014 and 2010; M.A. Co.

If you reported no adjusted gross income, your chances of being audited shot up 60% from 2010 to 2014. The \$500,000 to \$1,000,000 group also experienced an increased audit rate. All other income levels had declining coverage rates, ranging from down 32% for the \$50,000 to \$75,000 bracket to down 8.4% for the \$100,000 to \$200,000 group.

The higher your income, the greater your chances of being audited are. That's where the money is. Additional taxes of \$33 billion were assessed through audits, of which \$3 billion came from individual returns with \$1 million or more of positive income.

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