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YOUR GUIDE TO TAXES

An audit: It could happen to you

They are on the rise, so don't call attention to your return with errors, excesses

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Think you're safe from that tax audit because you've *never* been audited and never *heard* of anyone who's been? Don't get so comfy.

The IRS last year started ramping up its audits in two ways — by doing random audits for the first time in 14 years and by flagging more returns that it says are suspicious.

The Internal Revenue Service in late 2002 hired 2,000 more auditors so it could "enhance compliance," officials said.

The number of audits didn't increase notably last year because the new auditors were in training. But that all changes this year, said IRS spokesman Chris Kerns. "Obviously there will be more audits in the future," he said.

In 2002, only one out of 170 tax filers was audited. The IRS wants it to be more like the good old days of 1996, when one out of 60 people was audited.

Or the chances may be higher for you — if you do things on your return that raise red flags. Certain things increase the level of suspicion cast on your return, certified public accountants and IRS officials say.

Here are some of the big ones. If any of these apply, don't be surprised when your number gets called.

■ **Rule-bending.** "The IRS is a lot like a mom. She doesn't like it if you get cute," said certified financial planner Ken Robinson of Practical Financial Planning in Cleveland.

Robinson, who is also a lawyer, said people shouldn't hesitate to take deductions or make claims they're entitled to, as long as their reasoning isn't too far of a stretch. "If you think it might take a lawyer to explain it, think twice about it," he said.

The bottom line, he said, is "If you were an auditor and you wouldn't believe it, don't do it."

■ **Not being careful about what you lie about.** If you're going to fudge - er - mess up something, make it on the deductions side. Don't, just don't, try to hide income.

CPA Howard Kass, partner at Zinner & Co in Pepper Pike, explains it this way: Some people argue that "aggressive accounting" is good when it comes to finding deductions, he said.

But there's no such thing as "aggressive" when it comes to claiming income or not. "If you fail to report income, you're dead to rights," Kass said.

Also, it's much easier for the IRS to match up W-2s and 1099s with your income than to dissect every last deduction.

■ **High gambling losses.** These raise major eyebrows.

■ **Charitable donations of cars.** The IRS has started flagging these for two reasons: It believes donors are inflating the market values of beater cars. And second, many charities sell the vehicles and get only a fraction of the claimed deduction. The IRS doesn't like this.

Kass recommends that people donate cars to entities that don't sell them because then the IRS is less likely to protest. For example, many vocational schools accept donated cars for their auto repair classes, and some community agencies keep cars for clients getting back on their feet.

■ **High incomes.** Plain and simple, rich people probably score higher on the system the IRS uses to rate returns as suspicious, the IRS says. The number of returns with incomes exceeding $100,000 increased by more than 160 percent from 1993 to 2002, and more of these people can look forward to being audited than before. Your likelihood rises with the number of deductions and credits you claim.

■ **A sloppy return.** Just like you want to make a good impression on a blind date, you should be as neat as possible with anything you send to the IRS. These people are pocket-protector types.

If your return is barely legible, with grease stains for good measure, it's easy to understand why the IRS might think you weren't careful with the return or the calculations that went into it.

■ **Claiming business losses on a hobby.** To claim losses, you must be able to show you intended to make a profit. This test doesn't fly with some hobbies, said CPA Cynthia Hatfield of Zinner & Co. A perfect example might be raising horses. If there's "significant personal pleasure" from the pastime and little attempt to make money, losses might be flagged.

■ **Underpayment of taxes.** People must pay at least 90 percent of their current year's tax liability, or 100 percent of last year's tax liability, during the year, or possibly face a penalty.

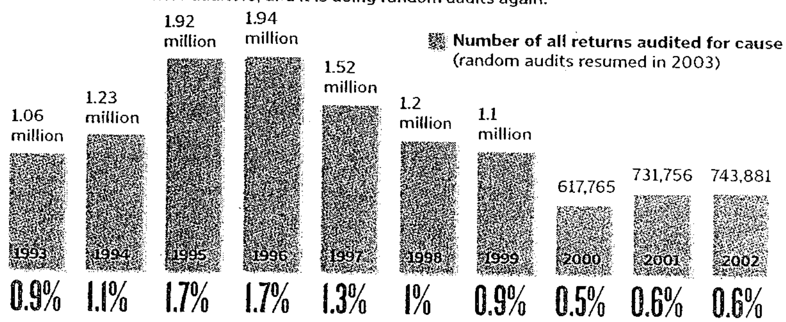
■ **Claiming lots of deductions.** The IRS in particular looks at the percentage of deductions relative to your gross income, said Paula DiVencenzo, senior taxation manager at Bober, Markey & Fedorovich in Akron.

■ **Making estimated tax payments on joint taxes and then filing separately.** This happens when it's more advantageous for a married couple to file separately, but "it ends up in a sea of letters with the IRS," Kass said.

Overall, Kerns of the IRS said people should just use care with their returns. "You might prefer not to spend the time [with an audit], but don't skip deductions or credits you're entitled to out of fear of an audit."

Getting audited

The number of taxpayers who get audited is expected to climb this year for two reasons — the IRS has hired more auditors, and it is doing random audits again.



Percentage of all returns audited for cause

SOURCE: Internal Revenue Service

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