The IRS has just released its annual Data Book. This one covers from October 1, 2017, to September 30, 2018. It’s only 75 pages long and makes for some great late night reading!

Just for the pure FUN of it, I have decided to condense some of the more interesting information in the report and present it to you. Get out the warm milk and cookies and enjoy!!

**What is an Acceptable Amount to Cheat on Income Taxes?**

[](https://www.google.com/url?sa=i&rct=j&q=&esrc=s&source=images&cd=&ved=2ahUKEwitncq9quLiAhUMoZ4KHSSbC9MQjRx6BAgBEAU&url=https%3A%2F%2Fus.shop.battle.net%2Fen-us%2Fproduct%2Fwow-complete-collection&psig=AOvVaw2IwVrvltwWUAdlSMRyYzc1&ust=1560373520374389)

|  |  |
| --- | --- |
| Not at all | 85% |
| A little here and there | 10% |
| As much as possible | 3% |
| No opinion | 2% |

**Actual number of returns filed…..**

|  |  |  |
| --- | --- | --- |
| **By type** | **Entire Country** | **In Oregon** |
| Total | 250,321,406 | 3,356,232 |
| 1040 | 152,937,949 | 1,932,612 |
| C Corporation | 2,127,673 | 18,690 |
| S Corporation | 5,128,058 | 60,394 |
| Partnership/LLC | 4,239,198 | 52,439 |
| All other \* | 85,888,528 | 1,292,097 |

\* Employment tax, Gift tax, Estate tax, Other



**Now, STOP and THINK for a minute about the above numbers….**

Notice that the “A little here and there” and the “As much as possible” categories add up to 13% of all taxpayers. Then, note that there were over 250 million tax returns filed in fiscal 2018.

***13% of 250 million is 32,500,000. Are there THAT many taxpayers out there that are cheating?!***

**Gross collections by IRS…….Total, 5 biggest states and Oregon**

Yeah, that’s 3 ***TRILLION!!***

|  |  |
| --- | --- |
| **Total United States** | **3,465,466,627** |
| California | 456,555,954 |
| New York | 281,220,376 |
| Texas | 280,048,364 |
| Florida | 205,694,126 |
| Illinois | 161,189,282 |
| **Oregon** | **33,802,142** |

**IRS Collection Growth Over the Decades**

|  |  |  |  |
| --- | --- | --- | --- |
| **Fiscal Year** | **Total Internal Revenue Collections** | **% Increase Over Prior Year** | **Comments** |
| 1960 | 91,774,803 | n/a |  |
| 1970 | 195,722,096 | 13% | Such a small increase |
| 1980 | 519,375,273 | 165% | How do you spell greedy? |
| 1990 | 1,056,365,652 | 103% | Another great increase? |
| 2000 | 2,096,916,925 | 99% | 3 years in a row!!! |
| 2010 | 2,345,055,978 | 12% | Oh, poor babies! |
| 2018 | 3,465,466,627 | 48% | Only 48%? |

**OK…..Now let’s hit the BIG STUFF…the stuff you *really* want to know!**

***AUDIT RATES…..scary stuff ahead!!***

Let’s start with a few general statistics for you. Keep in mind that we will be dealing with tax returns filed in calendar year 2017 that were actually audited in fiscal 2018 (it’s the latest information the IRS has).

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Total Returns Filed 2017** | **# Returns Audited Fiscal 2018** | **Audit %** |
| **United States, total** | **195,750,099** | **991,168** | **0.5%** |
| 1040 Individual returns | 150,043,227 | 892,187 | 0.6% |
| C Corp returns | 1,826,883 | 16,116 | 0.9% |
| S Corp returns | 4,848,921 | 10,575 | 0.2% |
| Partnership/LLC returns | 4,043,349 | 8,945 | 0.2% |

**Now let’s drill down a bit and look at some details regarding 1040 audits.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Row** | **Category** | **Total Returns Filed 2017** | **# Returns Audited Fiscal 2018** | **Audit %** |
| **1** | **United States, total** | **195,750,099** | **991,168** | **0.5%** |
| **2** | **Individual returns** | **150,043,227** | **892,187** | **0.6%** |
| **3** | Income under $200,000 and NO business schedules (no C, E or F) filed | 81,930,598 | 135,775 | 0.2% |
| **4** | 1040 with business schedules, no Earned Income Credit, business income under $100,000 | 14,717,605 | 128,162 | 0.9% |
| **5** | 1040 with business schedules, no Earned Income Credit, business income $100,000 - $200,000 | 915,411 | 21,649 | 2.4% |
| **6** | 1040 with business schedules, no Earned Income Credit, business income over $200,000 | 715,018 | 13,550 | 1.9% |

Just for the record, “business schedules” are C (sole proprietorship), E (rentals) and F (farms).

**Some comments/observations about the above details**

* The overall audit rate is only .5% (see row #1).
* The overall 1040 audit rate is .6% (see row #2)….only slightly higher than all tax returns combined.
* The highest 1040 audit rate was for those taxpayers who had a business schedule and reported business income between $100,000 and $200,000….see row #5.
* The next highest 1040 audit rate was for those taxpayers who had a business schedule and reported business income over $200,000….see row #6.
* If you did NOT have a business schedule and had less than $200,000 of other income (wages, dividends, capital gains, etc.) you had the LOWEST audit rate…only .2%...see row #3.
* OBSERVATION: If you are in row #5 and your spouse is working with you, you might want to consider filing a partnership tax return instead. Why? Well, looking at the table on the previous page you can see that the audit rate for partnerships is only .2% while *your* audit rate is 2.4%. Putting it in other terms, your present audit rate is **12 times higher** than a similar business that files a partnership return. This is food for thought!
* OBSERVATION: If you are in row #6 and your spouse is working with you, you also might want to consider filing a partnership tax return instead, for the same reason. Again, looking at the table on the previous page you can see that the audit rate for partnerships is only .2% while *your* audit rate is 1.9%. Putting it in other terms, your present audit rate is **10 times higher** than a similar business that files a partnership return. More food for thought!

**Now let’s drill down and look at some details regarding S Corporation and Partnership/LLC audits. Note that the Data Book doesn’t give us any breakdown by revenue reported (like we saw up above for the 1040 audits).**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Row** | **Category** | **Total Returns Filed 2017** | **# Returns Audited Fiscal 2018** | **Audit %** |
| **1** | **United States, total** | **195,750,099** | **991,168** | **0.5%** |
| **2** | **Individual returns** | **150,043,227** | **892,187** | **0.6%** |
| **3** | **S Corporation returns** | **4,848,921** | **10,575** | **0.2%** |
| **4** | **Partnership/LLC audits** | **4,043,349** | **8,945** | **0.2%** |

The only thing worth pointing out here is how low the audit rates are for S Corporations and Partnerships (.2%) compared to the overall average audit rate (.5%). And, then, there is the 1040 audit rate at .6%.

I have heard MANY tax professionals declare that the above figures make it clear that NOBODY should be operating any kind of business activity (sole proprietorship, rentals or farm activity) in any manner OTHER than an S corporation or a partnership/LLC.

**My response to that?**

I can see why they might say that. However, an intelligent decision regarding which entity structure to operate as entails far more than just “audit rate” considerations. Audit rates will, surely, play a part, but most folks are not overly worried about an audit. In addition, it costs more to prepare an S corporation return than it does to prepare a Schedule C on a 1040. Same for a partnership or LLC return.

All in all, deciding which entity to be will depend on a number of factors. Audit rates are merely one of them.

If you have any questions about this stuff…..call me and let’s talk!!

OK…..hope this newsletter gave you some insight into the wacky world of taxes. Never a dull moment!