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Chances for a tax audit have rarely been this low

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WASHINGTON (AP) -- As millions of Americans file their income tax returns, their chances of getting audited by the IRS have rarely been so low.

The number of people audited by the IRS in 2016 dropped for the sixth straight year, to just over 1 million. The last time so few people were audited was 2004. Since then, the U.S. has added about 30 million people.

The IRS blames budget cuts as money for the agency shrunk from \$12.2 billion in 2010 to \$11.2 billion last year. Over that period, the agency has lost more than 17,000 employees, including nearly 7,000 enforcement agents. A little more than 80,000 people work at the IRS.

IRS Commissioner John Koskinen said budget cuts are costing the federal government between \$4 billion and \$8 billion a year in uncollected taxes.

"We are the only agency if you give us more people and money, we give you more money back," Koskinen said in an interview.

So is it safe to cheat on your taxes? Not necessarily, according to tax experts.

"I don't think it's open season for people to cheat," said Joseph Perry, a partner at the accounting firm Marcum. "I think there are a certain group of people that will always try to push the envelope to get away with things that they think they can get away with."

As Koskinen put it: "If you're a taxpayer, you don't want to roll the roulette wheel and have the little white ball land on your number because then we're not very happy."

Most people don't have much of an opportunity to cheat on their taxes because the IRS collects a lot of information to verify taxpayers' finances. Employers report wages, banks report interest, brokerages report capital gains and lenders report mortgage interest.

In 2016, the number of people audited by the IRS dropped by 16 percent from the year before. Just 0.7 percent of individuals were audited, either in person or by mail. That's the lowest audit rate since 2003.

The higher your income, the more likely you are to be audited. The IRS audited 1.7 percent of returns that reported more than \$200,000 in income. Agents audited 5.8 percent of returns that reported more than \$1 million in income.

Both audit rates were steep declines from the year before.

The most well-known audit in Washington is one on President Donald Trump, who has cited it in refusing to release his tax returns. The IRS, however, has said an audit would not prevent an individual from releasing the returns.

Corporate audits were down by 17 percent last year. Just 0.49 percent of corporations were audited, the lowest rate in at least a decade.

Republicans in Congress began cutting money at the IRS after they took control of both the House and Senate in the 2010 elections. They became more enthusiastic about the spending cuts after it became public that the agency had improperly singled out conservative political groups for extra scrutiny when they applied for tax-exempt status during the 2010 and 2012 elections.

Koskinen was not at the IRS when the political groups were mistreated, but some Republicans in Congress have been unhappy with his cooperation in their investigations.

When asked about IRS money, many Republican lawmakers inevitably mention the mistreatment of conservative groups.

"Go look at all the areas where they've wasted money, mismanaged taxpayer resources," said Rep. Jim Jordan, R-Ohio. "Not to mention the fact that, you know, one of the reasons we went after them so hard is they did target people for their political views."

Democrats argue that it's a costly move.

"You know, when somebody doesn't pay, that means that others pay more," said Rep. Richard Neal of Massachusetts, the top Democrat on the tax-writing House Ways and Means Committee. "But I think there's no question that the majority (Republicans) here and apparently the president, they have had a target on the IRS."

Tony Reardon, president of the National Treasury Employees Union, which represents IRS workers, questioned Trump's proposal to increase military spending by billions while the GOP targets the IRS.

"The IRS collects 93 percent of our nation's revenue. You cannot increase defense spending and cut IRS funding at the same time. It does not add up," Reardon said.

Most federal agencies are bracing for budget cuts under the Trump administration, though Koskinen said he is making the case that the IRS already "gave at the office." It's unclear, however, how much influence Koskinen will have in the Trump administration. He was appointed by President Barack Obama and his term ends in November.

Treasury Secretary Steven Mnuchin offered the IRS a bone at his confirmation hearing when he acknowledged that adding agents would increase tax revenues. The department oversees the IRS, and Mnuchin was appointed by Trump.

"I can assure you that the president-elect understands the concept of where we add people and we make money," Mnuchin said at the hearing, which was held before Trump's inauguration. "He'll get that completely. That's a very quick conversation with Donald Trump."
