FREE IRS RISK RESOURCE

The IRS Audit Risk Checklist

27 Red Flags That Trigger IRS Scrutiny

The IRS flags returns using statistical algorithms, AI pattern recognition, and DIF scores. This checklist reveals every criterion they use — so you can prepare before a notice arrives.

AUDITPROOF

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WHY THIS CHECKLIST EXISTS

The IRS Doesn't Pick Returns at Random

The IRS uses a sophisticated scoring system called the **Discriminant Income Function (DIF)** to rank every filed return by audit risk. Returns with the highest DIF scores are reviewed by examiners before any audit decision is made.

In 2024, the IRS deployed **AURA (Automated Underreporting and Risk Assessment)** — an AI system that cross-references your return against third-party data from banks, platforms, and 1099 issuers in real time. AURA has dramatically increased audit trigger sensitivity, especially for self-employed filers, digital asset holders, and high-deduction returns.

$696B
Annual IRS tax gap — unfiled + underpaid

6×
Higher audit rate for self-employed vs. W-2 filers

$87B
IRS Inflation Reduction Act funding for enforcement

⚠ How to Use This Checklist

Check every item that applies to your tax profile. More checkmarks = higher DIF score = elevated audit risk. After completing the checklist, use the risk scoring guide on the final page to interpret your total — and take action accordingly.

CATEGORY 1 OF 4

Income & Reporting Red Flags

${[{ num: "01", flag: "Self-employment or 1099 income", detail: "Schedule C filers are audited at 6× the rate of W-2 earners. The IRS knows self-employment income is easiest to underreport." }, { num: "02", flag: "Cash-intensive business (salon, restaurant, contractor)", detail: "Cash businesses have higher income-underreporting risk. IRS compares reported income against lifestyle indicators." }, { num: "03", flag: "Significant income swings year-over-year (>30%)", detail: "Sudden drops in income trigger scrutiny. The IRS looks for 'bunching' — moving income or deductions across years." }, { num: "04", flag: "Unreported 1099 income (IRS already has the form)", detail: "The IRS receives copies of every 1099 issued. Mismatches between 1099s and your return are auto-flagged by AURA." }, { num: "05", flag: "Cryptocurrency or digital asset transactions", detail: "The IRS receives Form 1099-DA from exchanges and cross-references. Unreported crypto is now the top enforcement priority." }, { num: "06", flag: "Foreign bank accounts or income above $10,000", detail: "FBAR and FATCA requirements trigger automatic review. Foreign income is a top DIF scoring factor." }, { num: "07", flag: "Alimony deductions (pre-2019 divorces)", detail: "IRS cross-references alimony deductions against the recipient's reported income. Mismatches trigger both returns." }, { num: "08", flag: "Early retirement account withdrawal (<59½)", detail: "Penalties and taxes on early distributions are frequently misreported. IRS 1099-R cross-referencing catches omissions." }, { num: "09", flag: "Net Operating Loss (NOL) carryforward", detail: "Large losses carried from prior years reduce taxable income — a pattern the IRS examines for legitimacy." }].map(function(item) { return `

${item.num}

☐ **${item.flag}**

${item.detail}

`; }).join('')}

CATEGORY 2 OF 4

Deduction Red Flags

${[{ num: "10", flag: "Home office deduction claimed", detail: "The home office deduction requires exclusive and regular business use. Mixed personal/business use is the most common disqualifying error." }, { num: "11", flag: "Vehicle deductions without a mileage log", detail: "The IRS requires a contemporaneous mileage log. 'Estimated' logs reconstructed at tax time fail audits. Every mile must be documented." }, { num: "12", flag: "100% business-use vehicle claim", detail: "Claiming 100% business use on any vehicle is an automatic red flag. The IRS rarely accepts this without airtight documentation." }, { num: "13", flag: "High meal and entertainment deductions relative to income", detail: "The IRS uses industry averages. Meals above the statistical norm for your revenue level trigger a DIF flag." }, { num: "14", flag: "Travel deductions that include personal destinations", detail: "Mixed business-personal travel requires apportionment. Deducting personal elements is a common audit-generating error." }, { num: "15", flag: "Charitable contribution deductions above $500", detail: "Non-cash charitable contributions require Form 8283. High deductions relative to income are cross-checked against statistical norms." }, { num: "16", flag: "Large or irregular business losses on Schedule C", detail: "Losses from a business activity the IRS could classify as a 'hobby' are scrutinized heavily. Three years of losses can trigger the hobby loss rule." }, { num: "17", flag: "Rental property losses claimed against ordinary income", detail: "Passive activity loss rules limit deductibility. Real estate professionals claiming active losses face elevated examination rates." }, { num: "18", flag: "Pass-through deduction (Section 199A) on high income", detail: "The QBI deduction at higher income levels has complex limitations. Incorrect calculation is a top examination trigger for S-Corp owners." }].map(function(item) { return `

${item.num}

${item.flag}

${item.detail}

`; }).join('')}

CATEGORY 3 & 4 OF 4

Entity Structure & Compliance Red Flags

${[{ num: "19", flag: "S-Corp with unreasonably low officer salary", detail: "S-Corp shareholders must pay themselves reasonable compensation. Below-market salaries paired with high distributions are a top S-Corp audit trigger." }, { num: "20", flag: "LLC with multiple members and no formal operating agreement", detail: "The IRS may reclassify income and losses for improperly structured LLCs. Documentation of ownership and profit/loss allocation is required." }, { num: "21", flag: "Failure to file 1099s for paid contractors", detail: "If you paid contractors $600+ and didn't issue 1099-NECs, the IRS cross-references contractor returns. The discrepancy triggers both parties." }, { num: "22", flag: "Employee vs. contractor misclassification", detail: "The IRS 20-factor test determines worker classification. Misclassifying employees as contractors triggers employment tax liability plus penalties." }, { num: "23", flag: "Payroll tax delinquencies", detail: "Unpaid payroll taxes are a priority IRS collection matter. The Trust Fund Recovery Penalty extends personal liability to business owners and officers." }, { num: "24", flag: "Prior year IRS notice or examination", detail: "If you've received an IRS notice before, your return carries a higher examination risk score in subsequent years. Resolved or not." }, { num: "25", flag: "Amended returns (Form 1040-X)", detail: "Amended returns draw attention — especially if the change increases deductions or reduces income. Each amendment is manually reviewed." }, { num: "26", flag: "Math errors or missing forms on original return", detail: "Computational errors and missing schedules trigger automatic IRS correction notices that can escalate to full examination." }, { num: "27", flag: "Round-number deductions across multiple categories", detail: "Claiming $5,000 for meals, $10,000 for vehicle, and $3,000 for supplies suggests estimation rather than documentation — a known DIF trigger." }].map(function(item) { return `

${item.num}

☐ **${item.flag}**

${item.detail}

`; }).join('')}

YOUR RESULTS

How Many Did You Check?

0 – 3 flags

LOW RISK

Your return is below average scrutiny. Maintain clean documentation to stay protected as enforcement evolves.

4 – 8 flags

MODERATE RISK

Multiple triggers in your profile. A documentation system should be installed before your next filing.

9 – 15 flags

HIGH RISK

You are statistically likely to receive IRS scrutiny. Proactive compliance infrastructure is urgent.

16+ flags

CRITICAL RISK

You need immediate protection. Contact a compliance professional before your next quarterly filing.

Start with a Free IRS Risk Assessment

AUDITPROOF delivers a written IRS risk profile within 48 hours — identifying every vulnerability in your current setup and a prioritized remediation plan.

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