Small Businesses Face More IRS Audits Than Their Larger Counterparts

By Frank L. Brunetti on August 6th, 2012 Posted in Business Tax, IRS, Taxes

Small Business Audits

Businesses often face a great deal of scrutiny by the Internal Revenue Service to ensure they are in full compliance with federal tax law. However, new reports show that small companies may receive more attention from the federal tax agency than larger companies, making it crucial that owners proceed with caution.

The 2011 Enforcement and Service Results report released by the IRS reveals that 1.02 percent – or 19,697 – of small businesses with assets below $10 million were audited last year. This rate, compared with the 2004 report, in which only 0.32 percent of small companies were examined, represents the highest level of business audits in the last several years. A separate study conducted by tax analysts revealed that larger entities, namely hedge funds, private equity corporations and venture capitalists, have undergone fewer audits in recent years.

The disparity between the auditing of small versus large companies largely comes down to the perception that smaller businesses are more likely to inadvertently violate tax laws due to the complexities of the U.S. Tax Code, according to MainStreet.com.

Small companies may lack the financial resources of their larger counterparts to effectively track expenses and retain a team of tax and legal professionals that are equipped to handle potential tax issues. In addition, as the tax landscape changes and new rules are implemented, it may be more challenging from smaller companies to revamp their databases or understand their compliance responsibilities.

For these reasons, small business owners are advised to work with a tax professional during filing season to ensure they accurately report income and understand how tax code changes may impact their returns.