Beware, the IRS is looking for these red flags this tax season

By Alessandra Malito

Filing taxes can be complicated, but a simple mistake or a slight exaggeration could warrant an audit from the Internal Revenue Service.

Here's how someone is chosen for an audit: An IRS software program may randomly select the taxpayer and compare the return to other similar returns to detect any anomalies, or the taxpayer in question may be linked to a family member or business partner who is being audited.

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The IRS can audit returns up to three years old. Inaccuracies could lead to penalty charges: 20% of the disallowed amount for filing an "erroneous claim for a refund or credit," the IRS stated, or $5,000 if the tax return was deemed "frivolous," where there isn't enough information to assess correct or incorrect information.

In more serious cases, taxpayers could also be brought to trial and face criminal charges of tax evasion or fraud.

And now for the good news: The IRS audited less than 1% of returns last year, and that number may be even lower this year, said Joy Taylor, a tax expert at personal-finance site Kiplinger. Does that mean you should be carefree about filing? No.

Here are red flags tax experts say you should avoid:

Turning into the most generous person in America

One of the most common reasons for an audit is when the taxpayer is taking higher-than-average deductions in relation to his income. This can come from various types of deductions: Charitable contributions, real estate interest or student loans interest.

The IRS has a sense of what's a fair amount of deductions based on income brackets, Taylor said, and if someone blows past that threshold, it could lead to an audit. If someone earned $120,000 and claimed $50,000 of charitable contributions, they'd smell a rat.

If you are that generous, have the proof ready in case of an audit. Many legitimate charities give receipts to donors, so keep them safely stored.

Claiming a loss from your beloved hobby

This is for all the side hustlers. Know the difference between a business and a hobby. The IRS allows hobby deductions for expenses, up to the amount of income generated by that hobby. Say the taxpayer is a knitter. That person might sell some scarves and hats on the side of her

everyday business, but could only claim a deduction for the expense up to the amount she earned.

Don't miss: These financial tips from the 'sports tax man' can up your money game

Withdrawing from a retirement account early

There are some scenarios where an individual is allowed to take withdrawals from a retirement account prior to 59 ½ years old — when, for example, the taxpayer uses a portion of that money for a first-time home, qualified education expenses or emergency medical costs.

But the IRS charges a 10% penalty (on top of the tax paid on the withdrawal) when none of those exceptions are met. Almost 40% of taxpayers did not report the withdrawal when they did not qualify for the exceptions, according to Kiplinger, but the IRS still knows the withdrawal was made.

The IRS is notified of taxable early withdrawals from an individual retirement, according to personal-finance site The Nest, and the government's system will likely notice if the taxpayer did not include it in reportable income.

A sudden avalanche of business expenses

Though this particular rule is going to change next year, it still applies for last year's taxes, which must be filed by April 17. In previous years, employers were allowed to deduct more than 2% of their adjusted gross income for unreimbursed employee expenses, but will no longer be allowed to do so in 2018.

That doesn't mean you should try to squeeze in as many potentially reimbursable expenses as you can for your returns this year. Employees should keep note of their expenses and use a credit card or submit an expense report, said Harvey Bezozi, founder and adviser at "Your Financial Wizard."

If, for instance, you suddenly have a thick wad of restaurant and Uber receipts for business trips all over the city at night, the IRS will notice. You have been warned.