



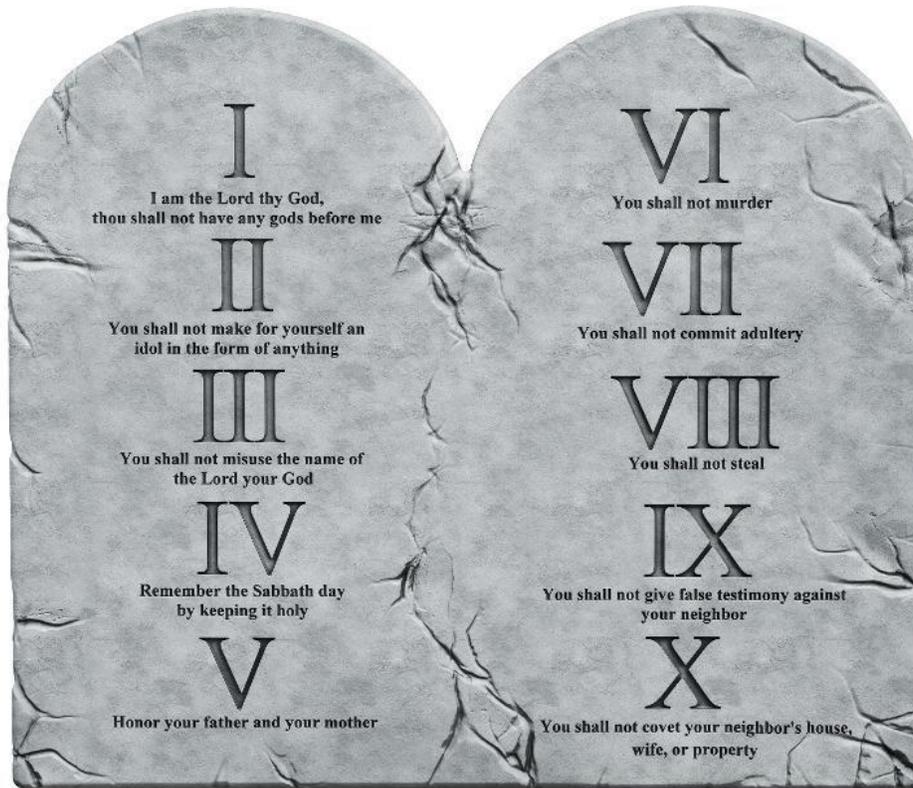
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TAXES 01/30/19

10 Tax Commandments To Avoid Trouble With The IRS

Taxation and religion are not very similar, at least not for most of us. But certain tax rules seem nearly absolute enough that they might seem akin religious principles. These rules seem clear enough that ignoring them may even bring lightning-bolt-out-of-the-sky consequences. These 10 rules are not commandments in the biblical sense. Still, they are important, and can help keep you out of tax trouble with the IRS year round.

1. Everything is Income. The IRS taxes all income from any source, whether in cash or in kind. Lottery winnings? Taxed. Gambling winnings? Taxed. You name it, it's taxed. If you find a diamond ring, you pay tax on its fair market value even if you don't sell it. And offsets or deductions are rarely as inclusive as the income.
2. Forms 1099 Really Count. Those little tax forms you get in January are keyed to your Social Security number. The IRS always gets a copy. Pay attention to them—the IRS sure does. Yet if you are [missing a Form 1099, consider not asking for it.](#)
3. Pay Taxes Later. Most tax planning involves timing. You want to *accelerate* tax deductions. Conversely, try to *defer* tax payments, subject to constraints such as the constructive receipt doctrine. Under constructive receipt, if you have a legal right to pay but say “pay me later,” it's taxed now.



4. Reply to Every IRS Notice. Keep a good record. Often, fighting the IRS is about attrition. Just keep replying in writing, and make sure you do it on time. Still, don't fight over small tax bills. If you get a small tax bill, pay it. Don't risk an audit or bigger dispute by fighting over small dollars.

5. Don't Talk To the IRS if They Visit. If the IRS comes to your home or business, you have the right to decline to speak with them. Ask them to talk to your lawyer. Take their card and be polite but firm. Usually you can't effectively represent yourself, and it's not worth the risk that you'll say the wrong thing.

6. Keep Records and Watch the Statute of Limitations. The usual IRS statute of limitations is three years after you file your tax return. If you understate your income by 25% or more, though, the IRS gets double that time to audit, a whopping six years. You can probably throw out most tax records after 7 years, but keep copies of your tax returns forever.

7. Avoid Amending Tax Returns. Sometimes, you have to amend. But think carefully. Amended returns have a higher audit rate, especially if they request a refund. The IRS says you "should" amend your return if you discover a mistake after it's filed. However, the only time you really *must* amend is if you knew when you filed your original return that it was false. If you decide to

amend, you can't cherry-pick which items to fix. The amended return must correct *everything*, not just the items in your favor.

8. Don't Explain or Attach Too Much. Timely file your tax returns even if you can't pay. Payment can come later, and might be the subject of an IRS installment agreement. Penalties will likely be smaller if you file on time. Keep your returns concise. If an explanation or disclosure is needed, keep it succinct. Attachments to tax returns should be limited to tax forms and, where needed, plain sheets of paper listing additional deductions, income, etc. Don't attach other documents. If the IRS wants documents it will ask.

9. Be Careful With Big Refunds and Foreign Accounts. Getting a big refund can make your return stick out. Consider applying some of the refund to the current year's tax payments rather than asking for the cash. You'll have a lower profile with an initial or amended return. Another sensitive item is foreign bank accounts. They may generate income but you won't receive a Form 1099. Still, reporting them is key. If balances exceed \$10,000 in the aggregate any time during the year, you *also* must file [FinCEN 114](#), also known as an [FBAR](#), separate from your tax return. These days the scrutiny is high. How you transition from past reporting failures is delicate.

10. Hire a Professional. You can use software or hire a tax professional to prepare your return. But if you end up in a tax dispute, handling a tax case by yourself is usually a mistake. Hire an accountant or lawyer to handle it. Even simple audits can go awry, or can expand into other areas if you aren't careful. Whether you need practical advice about a [tax refund too good to be true](#), about [independent contractor vs. employee status](#), or [why tax opinions are valuable](#), get some professional advice. And don't wait until the last minute.

This is not legal advice. For tax alerts or tax advice, email me at Wood@WoodLLP.com.