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THE TAX LAWYER

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20 Things Taxpayers Don't Get

The incredible popularity of [20 Things 20-Year-Olds Don't Get](#) made me reflect on the many important things about taxes most taxpayers don't get. Across a huge age range and even bigger economic spectrum, we all pay taxes. Yet we may not know key points.

To help put dollars in your pocket and ease your interactions with the tax system, these are far more important to your tax health than you might think.

1. Everything is Income. The IRS taxes all income from any source, whether in cash or in kind. Lottery? Taxed. Gambling? 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. See [Who Pays Tax On Hef's Engagement Ring Sale?](#)

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. See [1099 Or W-2?](#)

3. Beware Foreign Accounts. Foreign bank accounts 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 a Treasury Form [TDF 90-22.1](#), also known as an [FBAR](#), separate from your tax return. These days the scrutiny is high, and how you transition from failures to report in the past is delicate. See [Undisclosed Foreign Bank Accounts? They're Even More Explosive Now.](#)

4. Hire a Representative. Handling a tax case by yourself is usually a mistake. Hire an accountant or lawyer to handle it. Even simple audits can come off the rails or extend into other areas if you aren't careful. See [Should You Lawyer Up Against The IRS? You Bet.](#)

5. Pay Taxes Later. Most tax planning involves timing. You want to accelerate tax deductions and defer tax payments, subject to constraints such as the constructive receipt doctrine. If you have a legal right to pay and say "pay me later," it's taxed now. But you can **condition** payment, such as refusing to sell your house or settle a lawsuit unless you are paid next year. See [What To Buy And Expense Before Year End.](#)

6. Pay Small Tax Bills. If you get a small tax bill, pay it even if the IRS is wrong. What's "small" varies, but don't risk an audit or dispute escalating by fighting over small dollars. See [5 Steps To Keep The IRS Out Of Your Hair.](#)

7. Reply to Every IRS Letter Unless it Says Not To. This is common sense. Keep a good record. Often, fighting the IRS is about attrition. See [Got A Tax Notice? Here's What To Do.](#)

8. Don't Talk To the IRS if They Visit. If the IRS comes to your home or business, decline to speak and tell them your lawyer will call. Take their card and be polite but firm. See [When IRS Criminal Agents Come Calling.](#)

9. Don't Lie. If you say anything to the IRS, don't lie. See [When IRS Criminal Agents Come Calling.](#)

10. The IRS Can Audit for 3 Years. The usual IRS statute of limitations is 3 years after you file your return. If you understate your income by 25% or more, the IRS gets 6 years. See [IRS Statute Of Limitations—Is Your Return Safe?](#)

11. Keep Your Records for 7 Years. Tax records are important. See [Keep Tax Records In The Vault!](#)

12. Keep Your Old Tax Returns Forever. Although you can probably throw out most tax records after 6 years, keep copies of your returns themselves forever. See [Tax Return Filed? Now Consider Your Records.](#)

13. Avoid Amending Tax Returns. Don't take amending tax returns lightly. Amended returns have a high audit rate, especially if they request a refund. See [5 Simple Rules to Follow When Amending Your Tax Return](#).

14. You Usually Don't Have to Amend Your Return. The IRS says you "should" amend your return if you discover a mistake after it's filed. But there's no legal obligation. The only time you really *must* amend is if you knew at the time you filed the original return that it was false. See [Five More Tips For Amending Tax Returns](#).

15. If You Amend, You Can't Cherry-Pick. 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.

16. File Returns Even if You Can't Pay. Many taxpayers don't file on time because they don't have the tax money. They would be much better off if they filed on time. Payment can come later, and might be the subject of an IRS installment agreement. Penalties too will likely be smaller if you file on time.

17. Don't Explain Too Much. Tax returns should be concise. If an explanation or disclosure is needed, keep it succinct. See [Five Must-Do Steps Before Filing Your Taxes](#).

18. Don't Attach Too Much. Attachments to tax returns should be limited to tax forms and, where required, plain sheets of paper listing additional deductions, income, etc. Don't attach other documents. If the IRS wants documents it will ask. See [Shhh, Home Office And Other IRS Audit Trigger Secrets](#).

19. Be Careful With Big Refunds. Getting a refund? Consider applying it to next year's tax payments rather than asking for the cash, especially if it is large. You'll have a lower profile with an initial or amended return. See [Getting A Tax Refund? Ten Things To Know](#).

20. Get Some Advice. Whether you need practical procedural advice about a [Tax Refund Too Good To Be True? Don't Spend It](#), advice about [Independent Contractor Or Employee: Why It Matters](#), or you already know [why tax opinions are valuable](#), get some advice from someone with experience in your issue. And don't wait until the last minute.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.