



Robert W. Wood

THE TAX LAWYER

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5 Steps To Keep The IRS Out Of Your Hair

Our tax system is complicated, and any interaction with the IRS can be stressful. What with all the recent scandals, there's even more than the usual concern about dealing with the IRS. One problem can trigger another, so problems tend to snowball.

For that reason, make your tax returns timely and pristine. Make your communications clear and on time. In fact, observe these simple rules year round, not just at tax time. Respect them and you'll reduce your chances of coming to grief with the IRS.

1. File On Time. Timely filed returns are less likely to be examined than late ones. Extensions are fine. There's nothing to suggest that going on extension makes your return stick out. In fact, some advisers believe going on extension *reduces* your chance of audit.

File on time, and if possible pay on time too. But if you can't pay with your return, you should still file on time.



Photo credit: Wikipedia

2. Don't Ask For Too Big A Refund. If you've paid in way too much, you are entitled to the money back. However, too much back can trigger an audit. There's no bright line, but if the amount is very large, consider applying some of it to your next year's estimated taxes. By the time you file your return it will be part way through the year and you should be thinking about this year's taxes too.

3. Keep good records. You might assume that keeping good records is required only if you're audited or in a tax dispute. Actually, keeping good records helps keep you out of tax trouble, and not just for businesses. For example, recreational gamblers should keep a diary or other contemporaneous record of how much they bet and lose on each visit. See [Tax Return Filed? Now Consider Your Records.](#)

Another example: charitable donations. Put a \$20 check instead of a \$20 bill in the collection plate. See [Need A Tax Receipt?](#) In business, it's even more important to keep good records. Most audits are correspondence audits. You are told your deductions will be disallowed unless you promptly mail back records substantiating them. For more [click here.](#)

4. Report Every Form 1099. How you handle information returns like Forms 1099 matters. A lot of what goes on at the IRS is information [return matching](#) to taxpayer identification numbers. Even a small mismatch can result in months of hassles or a tax bill.

There are different forms for miscellaneous income (Form 1099-MISC), interest (Form 1099-INT) and so on. The IRS matches your return to your forms to make sure you haven't understated income or overstated deductions. When you get 1099s, don't just stick them in a drawer—examine them promptly.

Payers are required to mail all 1099s to payees no later than Jan. 31. Then, the payer has another month (until Feb. 28) to send all 1099s to the IRS. This one month delay means that if you receive a 1099 you know is wrong, there may be time to correct it **before** the IRS receives a copy. If not, there's a way to issue a corrected form.

If you disagree with the Form 1099 but can't get the issuer to change it, you'll need to explain it on your return. Don't ignore it. But don't explain too much. Think Hemingway, not Faulkner.

If it isn't income—say an injury auto accident settlement—so note. Get some advice on how and where to do this on your return, but don't ignore the 1099. Forms K-1 for LLCs and partnerships are important too. Every form with your Social Security Number on it counts.

5. Keep business and personal affairs separate. Try to separate your tax life into business and personal. The person who forgets this rule and tries to morph personal matters into business ones is usually asking for trouble. See [Just Business Not Personal? IRS May Not Agree](#). I'm thinking of people who:

- Try to deduct the cost of their divorce because their business is at risk.
- Try to deduct a miserable vacation with their best client.
- Claim their hobby as a farmer or horse breeder was actually pursued for profit.

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.