



Robert W. Wood

THE TAX LAWYER

Mar. 2 2012 — 6:06 am

Follow Three Simple Tax Rules

Taxes are complicated, but some rules are simple. Respect these three rules, and you'll reduce the chance of coming to grief with the IRS.

1. Keep Business and Personal Affairs Separate. You'll be better off if you can separate your tax life into business and personal. I've seen many tax disputes in my [30-year](#)

[career](#) as a tax lawyer that came down to a violation of this fundamental divide.



Image via lgfcnewsworks.org

Trying to morph personal into business is asking for trouble, including:

- Deducting the cost of a divorce because your business is at risk;
- Deducting a miserable vacation with a best client; and
- Claiming a hobby was really for profit. (If you do engage in a business that the IRS might construe as a hobby, [click here](#) for more advice.)

You may do things with a dual motive, like having a pleasant lunch with a business colleague, going on vacation with your best client or buying a vacation home you also intend as an investment. See [Summer Vacation — Er, Business Trip — Tax Reminders](#) and [More Business Travel/Vacation Tax Treats](#). Still, your tax life will be easier if you try to avoid dual-purpose goals.

2. Keep Good Records. You might think keeping good records is only something that can help you if you actually end up in a tax controversy. Yet keeping good records can keep you out of tax trouble in the first place. See [Keep Tax Records In The Vault!](#)

For example, recreational gamblers should keep a diary of how much they bet and lose on each visit. You can use gambling losses to offset your winnings (casinos report these to the IRS). Another example is charitable donations. The law requires you to have proof of every donation you deduct. See [Giving To Charity? Great. Staying Off IRS Radar? Priceless.](#)

Does the IRS really care about record keeping? Yes. Most audits are correspondence audits. You may be told your deductions will be disallowed unless you mail back records substantiating them. For more on how IRS mail handling problems can turn one of these audits into a mess, [click here](#).

3. Respect and Keep Those 1099s. How you handle third-party “information returns,” such as Forms 1099, year round will influence how hard a time you have when you file your return and interact with the IRS thereafter. Whether you are payee or payor, you need a system to record and track these information returns. That’s exactly what the IRS does. See [Watch Your Mail For 1099s](#).

A lot of what goes on at the IRS is computer matching—the endless correlation of taxpayer identification numbers and payments. Even a small mismatch between what’s on these forms and what you report on your tax return will be caught and could result in months of hassles with the IRS. Much of what the IRS does, when it comes to monitoring taxpayers, is information [return matching](#).

There are different forms for miscellaneous income (Form [1099-MISC](#)), for interest (Form [1099-INT](#)) and so on. When you get your 1099s, don’t just stick them in a drawer. Look at them. Payors are required to mail all 1099s to payees no later than January 31. Then, the payor has another month (until the end of February) to send all of its 1099s to the IRS. This one month lag 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 you receive an incorrect 1099 (and this is common), contact the payor who issued the erroneous form as soon as you receive it. Explain the

error and ask whether they have already sent a copy of the 1099 to the IRS. If the payor has already sent a copy of the erroneous form to the IRS, you can still ask for a correction. In that event, the payor should issue a “corrected” 1099 (there’s a special box for this). See [Care With Forms 1099 Helps Audit-Proof Tax Returns](#).

For more, see:

[12 Tax Scams to Avoid Like the Plague](#)

[Turning Down Pay Doesn’t Avoid Taxes](#)

[‘Sick Lawyer’ Excuse Not Enough To Escape IRS Penalties](#)

[Need A Tax Receipt?](#)

[What If A Taxpayer Doesn’t Have Receipts?](#)

[Avoid IRS Audit Triggers](#)

[What’s Your IRS Audit Risk?](#)

[Is Failing To Issue IRS Forms 1099 Criminal?](#)

[Beware Each Form 1099!](#)

[Got A Tax Notice? Here’s What To Do](#)

[IRS Allows Tax Return Do-Overs](#)

*Robert W. Wood practices law with [Wood LLP](#), in San Francisco. The author of more than 30 books, including *Taxation of Damage Awards & Settlement Payments* (4th Ed. 2009 with 2012 Supplement, [Tax Institute](#)), he can be reached 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.*