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Fifty Shades Of Taxes: IRS Domination With No Safe Words

[Fifty Shades of Grey](#) is here just in time for Valentine's Day. I'll bet no one who goes to the movie is thinking about their taxes, but they should. After all, W-2s and 1099s are sent, April 15 is only 60 days away, and tax refund fraudsters are in full swing as [TurboTax fraud worries are impacting state and federal returns](#). Unfortunately, the pain of taxes isn't mixed with pleasure.

The racy book was toned down, but the movie is still provocative. [Scott Mendelson](#) says "*Fifty Shades of Grey is an entertaining, witty, and occasionally sexy fable of female assertiveness disguised as a tale of submission.*" Still, there are many more shades of grey in the tax code, which someone has to interpret. That's where the IRS comes in, a kind of dominatrix of the tax world. And the stakes are frightening enough that they cry out for safe words.

Too bad, because if you mess up in tax there *are* no safe words. The consequences can be as serious as, well, bondage. A bad experience can mean additional taxes, interest, penalties, perhaps even prison. But there's another similarity. Many taxpayers feel in a state of bondage, without any pleasure.



Taxes are as nuanced and puzzling, yet it's often not clear how to keep your nose clean. You can hire tax advisers, but everyone still needs some basic grounding just to get along in the world. This applies to wage-earners, but being tax savvy is even more important if you have a business.

Shades of Income. The IRS taxes all income from any source, whether in cash or in kind. Lottery winnings? 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. Yes there are precious few exclusions, but even offsets and deductions are rarely as inclusive as the income.

Shades of Form 1099. Those little tax forms you get in January are keyed to your Social Security number. The IRS always gets a copy. Much of what the IRS does is information [return matching](#), the correlation of taxpayer ID numbers and payments from [Form 1099-MISC](#) and many others. If you are [missing a Form 1099, you shouldn't ask for it](#), but do make sure the 1099s you receive are [correct](#). Keep track of them, since [care with Forms 1099 helps audit-proof returns](#).

Don't Talk. You want to be social and courteous, but if the IRS visits your home or business, you have the right to decline to speak to them. Ask them to talk to your representative. Take their cards, be polite but firm. You can't effectively represent yourself. It's not worth the risk you'll say the wrong thing.

Stay Private. Keep your return data as safe as you can. Change your password and keep your fingers crossed. And maybe, consider [not filing your taxes early this year](#).

Audit Purgatory. The usual IRS statute of limitations is 3 years after you file. But there are exceptions. If you never file returns, the statute never runs, but the IRS rarely goes back more than 6 years. On the other hand, the [IRS statute of limitations](#) on collections is 10 years.

Avoid Amending. Amended returns have a high audit rate, especially if they request a big refund. The main time you *must* amend is if you knew your original return was false when you filed it. 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.

Don't Over Explain. As in bondage, explaining too much isn't good. Keep tax 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.

Big Refunds. Getting a big refund can make your tax 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.

Foreign Accounts. Foreign accounts and income are sensitive, especially now that FATCA is in effect. Foreign accounts may generate income but you won't receive a Form 1099. If your foreign account balances exceed \$10,000 in the aggregate at any time during the year, you *also* must file a Treasury Form known as an [FBAR](#), now called [Form 114](#). How you transition from past reporting failures is delicate, and the IRS urges people to enter one of the IRS amnesty programs.

ACA. This year, we have the hassle of additional [Obamacare tax filings, which are causing some backlash](#). But no matter how frustrated you may be about taxes, the last conversation you want to have with the IRS is about fraud or evasion. In fact, if you find yourself in that situation, [Better Call Saul](#).

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