APR 10, 2020

By **Robert W. Wood**

Non-Stimulus Tax Rules You'll Need This Year

The United States Internal Revenue Service delayed tax day this year from April 15 to July 15, and perhaps that means many Americans aren't thinking about taxes during this very strange time. Indeed, they seem understandably focused on the variety of new government programs that comprise part of the CARES Act, enacted to try to boost the slumped economy and put some needed dollars in people's hands.

Related: IRS Delays Tax Day to July 15, Still Monitors Crypto

The CARES Act includes provisions for checks for consumers and benefits for businesses, with several types of loans, tax credits and other relief designed to help keep the economy alive and keep shuttered businesses from going under. Amid all the chaos and concern, it can be easy to lose sight of some basic tax rules.

But once we all start to look beyond the confines of remote work and have to start thinking about tax filings again, it is worth remembering these tax fundamentals, as they will be relevant again this year.

Whenever you start to think about taxes this year, whether for yourself or your business, these key tax rules could put dollars in your pocket and ease your interactions with the IRS.

First, remember that crypto transactions trigger income, and the IRS has made a point of pushing its enforcement efforts. It is getting harder and harder to claim ignorance, too. A new IRS question appears at the top of Schedule 1 to your 2019 Form 1040. It asks if you received, sold, sent, exchanged or otherwise acquired any financial interest in any virtual currency at any time during the year.

It is not asking for numbers or detail, although if you sold some, it should go elsewhere on your tax return. Since the IRS classifies crypto as property, any sale should produce gain or loss. Many other transfers do too, so when the IRS asks about cryptocurrency on your taxes, answer carefully.

Think about what information the IRS is getting about you too. Don't forget about IRS Forms 1099, K-1, etc. These tax reporting forms that you may have received as early as January are keyed to your Social Security number, and the IRS always gets a copy. Pay attention to them — the IRS sure does. IRS Forms 1099 are critical, so keep track of each one.

Of course, just because you may not have received a Form 1099 does not mean a payment is not taxable. Regardless of whether you receive a Form 1099, almost 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.

Also, keep in mind that tax filing and tax payment obligations are often separated, and really are independent. So no matter how short of cash you might be, remember to 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.

Coloring within the lines is another useful concept when it comes to tax preparation. Tax returns should be concise. Don't explain too much or attach too much to your tax returns. If an explanation or disclosure is needed, keep it succinct. 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.

Just as crypto activity seems to be a real hot button with the IRS right now, so are foreign bank accounts, so don't forget about reporting them. Of course, they may generate income, but unlike interest from a U.S. bank, you won't receive a Form 1099 from a foreign bank. Still, reporting them is key not only on your tax return.

If the total balances of all your foreign accounts exceed $10,000 at any time during the year, you must also file a Foreign Bank and Financial Accounts, or FBAR. These separate forms are filed (online) with the Financial Crimes Enforcement Network, another division of the U.S. Treasury Department. Even the name is a little scary. With FATCA, IRS scrutiny is high, and how you transition from failures to report in the past to present compliance can be delicate. Beware, so far, the IRS has collected $10 billion from offshore compliance.

Much of dealing with the IRS successfully lies in giving attention to detail, even when it might not seem important. So reply to every IRS letter, unless it expressly says not to. Often, fighting the IRS is about attrition, so you want to keep responding and trying to provide what the IRS wants you to explain or provide. Sometimes, that even means paying the IRS what they require. For example, if you get a small tax bill, it is usually wise to 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.

Speaking of audits, always remember how long the IRS can audit. The usual IRS statute of limitations is three years after you file your return, but there are lots of other IRS statute of limitations rules that everyone should know. For example, if you understate your income by 25% or more, the IRS gets six years. To be safe, keep tax records for seven years, and keep copies of your tax returns forever.

If you need to amend your return, don't take amending tax returns lightly. Amended returns have a high audit rate, especially if they request a refund. The IRS says you "should" amend your return if you discover a mistake after it's been filed, but the only time you really must amend is if you knew at the time you filed the original return that it was false. If you decide to amend, the amended return must correct everything, not just the items in your favor. Getting a big refund? Consider applying it to next year's tax payments rather than asking for the cash, especially if it is large. If you are getting a tax refund, not asking for the money back can lower your profile with an initial or amended return.

Speaking of your profile, 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. If you say anything to the IRS, do not lie. Consider getting professional tax advice too. You can prepare your own returns with software if you wish, but if you have an audit or dispute, consider hiring an accountant or tax lawyer to handle it. Even simple audits can go off the rails or extend into other areas if you aren't careful.

Amazingly, most criminal tax cases start with civil audits. Whether you need practical procedural advice or technical help on particular issues, find someone with experience in your issue. And don't wait until the last minute.

The views, thoughts and opinions expressed here are the author's alone and do not necessarily reflect or represent the views and opinions of Cointelegraph.

Robert W. Wood *is a tax lawyer representing clients worldwide from the office of Wood LLP in San Francisco. He is the author of numerous tax books and writes frequently about taxes for Forbes, Tax Notes and other publications.*