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THE TAX LAWYER

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Six Simple Tax Savvy Ways To Stay Clear Of IRS

Our tax system is complicated, and dealing with tax problems are no fun. Yet there are some easy ways you can stay out of trouble with the IRS. Respect these five simple rules and you'll reduce your chances of coming to grief over taxes.

1. File and Pay, or At Least File. File your tax returns on time or on extension. Pay the taxes due if you can, but file your return even if you can't pay.

2. Keep business and personal affairs separate. You'll be better off if you can separate your tax life into business and personal. Trying to morph personal matters into business ones is asking for trouble. 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 activity](#) was really engaged in for profit, writing off expenses against other income.

There are many provisions in the tax law that recognize dual purposes. Still, try to avoid such dual-purpose goals and do your best to categorize things appropriately. Your tax life will be easier.



Taxpayers have until Monday, April 18, 2016 to file their 2015 tax returns and pay any tax owed. (Photographer: Andrew Harrer/Bloomberg)

3. **Keep good records.** You might think keeping good records is only something that can help you if you end up in a tax controversy. Yet keeping good records can keep you out of tax trouble in the first place. Maybe it's karma. Moreover, this rule isn't just for people who run businesses.

Does the IRS really care about this sort of record keeping? Yes. Most audits are **correspondence audits**. You may be asked about a particular category of deductions or be told that your deductions will be disallowed unless you mail back records substantiating them.

4. **Respect Each Form 1099.** How you handle so-called "information returns," such as **Forms 1099** is important. It will influence how hard a time you have when you file your return and interact with the IRS thereafter. Much of what goes on at the IRS is 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 could result in months of hassles with the IRS.

Pay attention to these little forms as they arrive. You may get a statement from your bank that looks like your regular statement, but says it is a 1099. When you get your 1099s, don't just stick them in a drawer. Examine them.

If you [receive an incorrect 1099](#), contact the payor, explain the error, and ask whether they already sent a copy to the IRS. The best corrections are done this way, with the payor destroying the old form and issuing a correct one. Keep a record of such communications, since you may end up in a reporting mess later on. 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.

5. [Don't owe IRS over \\$50,000](#). Do you like to travel? If so, watch out for big tax debts. If you owe over \$50,000, [IRS can go after your passport](#). The rules are still being developed, but the law has passed and IRS passport control is on the way.

6. [Pay small bills](#). If you get a notice from the [IRS, respond very carefully](#). Pick your battles. It often doesn't pay to fight with the IRS. So if a tax bill is small, don't get into the system and risk bigger problems for a few dollars. Just pay the bill and move on. Of course, what is small to one person is a major bill to someone else. There's no absolute standard here. But at least consider the possibility of paying a tax bill unless you are sure you're better off contesting it.

For alerts to future tax articles, email me at Wood@WoodLLP.com. This discussion is not legal advice.