PERSPECTIVE

Los Angeles | Daily Journal

WEDNESDAY, MAY 6, 2020

Stimulus Or Not, Tax Rules You Still Need This Year

By Robert W. Wood

During the virus lockdown, the IRS and the California Franchise Tax Board both delayed tax day this year from April 15 to July 15. Perhaps that means you aren't even thinking about your regular tax issues during this very strange time. Indeed, in the meantime, everyone seems understandably focused on the variety of new government programs that comprise part of the Coronavirus Aid, Relief, and Economic Security Act which was enacted to try to boost the slumped economy and put some needed dollars in people's hands. The CARES Act includes provisions for checks for consumers and for 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.

Amidst 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 again about tax filings, it is worth remembering these tax fundamentals, since they will be relevant this year again. Whenever you start to think about taxes this year, for yourself or your business, these key tax rules could put dollars in your pocket and ease your interactions with IRS and the state tax collector.

Don't forget about IRS Forms 1099. These little tax forms you probably received in January are keyed to your Social Security number, and the IRS always gets a copy. Pay attention to them—-the IRS sure does. These IRS Forms 1099 are critical, so keep track of every 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.

Crypto transactions trigger income. 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 IRS asks about cryptocurrency on your taxes, answer carefully.

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.

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.

Foreign bank accounts may generate income, but you won't receive a Form 1099. Still, reporting them is key. If to total balances of all your foreign accounts exceed $10,000 at any time during the year, you must file an FBAR. 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.

Reply to every IRS letter, unless it says not to. This is common sense. Often, fighting the IRS is about attrition. If you get a small tax bill, 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.

Remember how long the IRS can audit. The usual IRS statute of limitations is 3 years after you file your return, but there are lots of other IRS statute of limitation rules everyone should know. For example, if you understate your income by 25% or more, the IRS gets 6 years. To be safe, keep tax records for 7 years. And keep copies of your tax returns themselves forever.

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 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.

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.

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