PERSPECTIVE

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Tax Tips For A Better 2020

By Robert W. Wood

You may have made the usual New Year's resolutions, and the news suggests that many of us have already broken ours. These tips could help keep you out of trouble with the IRS all year long, and could even save you money. Start by thinking of taxes as everywhere and touching everything. That's right, the IRS taxes all income, whether in cash or in kind. Lottery winnings? Taxed. Gambling winnings? Taxed. Crypto?

Yes, it's taxed too. Indeed, the IRS cares a *great* deal about this now. So if you have been dabbling in crypto or investing in a big way but not reporting it, you had better knuckle down and clean up your past and current reporting. You name it, it's taxed, and deductions are rarely as inclusive as income. What can help you remember? For one thing, IRS Forms 1099.

Those little 1099 forms you get in January are keyed to your Social Security number, and the IRS always gets a copy. Pay attention to them, as the IRS sure does. Yet if you are missing a Form 1099, you still have to report the income. You don't need the form for that. In fact, if you are missing a form, consider not asking for it. just report the income, which you have to do whether or not you receive a Form 1099.

You might think about IRS notices all year long too. If you receive an IRS Notice, reply in writing, and make sure you do it on time. And if the IRS wants a small amount, don't risk an audit or bigger dispute by fighting over small dollars. You might be surprised at how many much bigger tax disputes, even including criminal tax cases, have been influenced or even caused by someone forgetting this simple rule.

Consider timing too, since most tax planning involves timing. Most taxpayers know this instinctively. You usually want to *accelerate* tax deductions, but to *defer* paying taxes when you can. There is not always a perfect ability to do this. But you might be surprised at how many times you can sway the tax result by a little common sense. You have to consider constructive receipt, of course, but some of that too is common sense.

Take lawsuit settlements, or selling your property. As long as you are releasing legal rights, or transferring something, you can tell the other side that you want to money in installments, or in the next tax year. You have to do it in writing, of course, and you can't sign until those terms are laid out. What you can't do is have a present legal right to payment and *then* say pay me next year.

Keep records and watch the statute of limitations. The usual IRS statute of limitations is three years after you file your tax return. If you understate your income by 25% or more, though, the IRS gets double that time to audit, a whopping six years. You can probably throw out most tax records after 7 years, but keep copies of your tax returns forever. Speaking of tax returns, file on time even if you can't pay. Payment can come later, and might be the subject of an IRS installment agreement. Penalties will likely be smaller if you file on time.

Keep your 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. Refunds are nice, but getting a huge refund can make your return stick out. Consider applying some of the refund to the current year's tax payments rather than asking for all of the cash, especially with an amended return.

Pay attention to foreign bank accounts too. They may generate income but you won't receive a Form 1099. Still, reporting them is key. If balances exceed $10,000 in the aggregate any time during the year, you *also* must file FinCEN 114, also known as an FBAR, separate from your tax return. These days the scrutiny is high. How you transition from past reporting failures is delicate.

Amending your taxes? Sometimes, you have to amend, but amended returns have a higher 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. However, you really *must* amend if you knew when you filed your original return that it was false. 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. If you're a crypto investor those IRS crypto letters should be a wake-up call, even if you didn't receive one.

You can use software or hire a tax professional to prepare your return. If you end up in a tax dispute, handling a tax case by yourself is usually a mistake. Hire an accountant or lawyer to handle it. Even simple audits can go awry, or can expand into other areas if you aren't careful. Whether you need practical advice about a tax refund that is too good to be true or why tax opinions are valuable get some professional advice. And don't wait until the last minute.

Finally, be careful about observing some fundamental rules, given the power of the IRS. If the IRS comes to your home or business, you have the right to decline to speak with them. Take their card and ask them to talk to your lawyer. Usually you can't effectively represent yourself, and it's not worth the risk that you might say the wrong thing.

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