

There Are No 'Safe Words' If You Mess Up Your Taxes

By Robert W. Wood

The racy movie "Fifty Shades of Grey" was released in time for Valentine's Day. Some reviews say the movie puts women down, while others call it feminism. But despite the box office haul, the general consensus seems to be that the movie isn't all that good. Still, money talks.

As for money, I'll bet no one who goes to the movie is thinking about their taxes, but they should. After all, at this time of year, Forms W-2 and 1099 have all been sent, April 15 isn't too far away, and tax refund fraudsters are in full swing.

This tax return filing season has been populated by fraudsters and identity theft. Already, TurboTax has had more than a kerfuffle over questions why filers who used TurboTax have had more stolen refunds than with other software.

Unfortunately, the pain of taxes isn't mixed with pleasure. The racy book was toned down, but the movie is still provocative. Reviewer Scott Mendelson called the movie "an entertaining, witty, and occasionally sexy fable of female assertiveness disguised as a tale of submission."

However, there are many more shades of grey in the tax code, which someone must interpret. That's where the Internal Revenue Service 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 taxes, 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.

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. Income is very broad. Deductions are very narrow.

Speaking of income, remember that Forms 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 endless correlation of taxpayer identification numbers and payments from Forms 1099, K-1, W-2 and many others.

Many taxpayers seem to think they need all those Forms 1099. Actually, if you are missing one, you generally should not ask for it. There are numerous reasons not to do so, and you should just report the income you know you received.

Of course, for all the Forms 1099 and K-1 you do receive, hold on to them. Review them to verify that they are correct. And if they aren't, consult the payer or a tax lawyer.

Talking to the IRS? Be careful about this one. You want to be social and courteous. However, 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.

We can't talk about taxes this year without mentioning confidentiality and identity theft. It is a huge problem, made more extreme by the fact that virtually everything is electronic these days. Keep your return data as safe as you can. Change your password and keep your fingers crossed.

Monitoring the statute of limitations is another huge issue to address. Surprisingly, many taxpayers don't do it. The usual IRS statute of limitations is three 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 six years. On the other hand, the IRS statute of limitations on collections is 10 years. This surprises many people. Once a bill is final, the IRS can collect up to 10 years later, sometimes even longer.

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 amend, you can't cherry-pick which items to fix. The amended return must correct everything, not just the items in your favor.

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.

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 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.

This one is important. FBARs are now also called FinCEN Form 114. Penalties are huge, so don't forget. And if you did, how you transition from past reporting failures is delicate. The IRS urges people to enter one of the IRS amnesty programs. Get professional advice.

Finally, this year, we have the hassle of additional Obamacare tax filings. There is still a great deal of confusion, but the IRS is the main administrative organization for the massive health care law. It will take years to iron out the kinks.

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, it might be time to call a lawyer.

Fifty Shades of Grey? In taxes, it's more like 1,000.



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