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THE TAX LAWYER

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Three Simple Rules To Stay Off IRS Radar

If you don't want to wind up in a [tax dispute](#) do everything you can to avoid an [audit](#). No matter how secure you feel in your tax positions, you don't want the time, expense and aggravation of an audit even if you can substantiate everything. Still, some percentage of tax returns will be [examined](#) whether the returns are for income tax, payroll tax, gross receipts, excise, sales and use tax.



Follow these three rules and you'll reduce your chances of grief from the IRS.

1. Keep Good Records. You might think good records help only if you're audited. Actually keeping good records can keep you out of trouble in the first place. See [Keep Tax Records In The Vault!](#) Most audits are by correspondence. Thus, your deductions might be disallowed unless you produce records substantiating them. To respond quickly and thoroughly, be prepared. See [Got A Tax Notice? Here's What To Do.](#)

2. Respect Those 1099s. Much of what the IRS does is information [return matching](#), the endless correlation of taxpayer identification numbers and payments. Even small mismatches can trigger big problems. There are different Forms 1099 for miscellaneous income (Form [1099-MISC](#)), interest (Form [1099-INT](#)), and many other payments.

You need a system to record and track Forms 1099. That's exactly what the IRS does. See [Watch Your Mail For 1099s](#). Although most forms arrive in January, how you handle them year round matters. Don't just stick them in a drawer when they arrive, look at them.

If you receive an incorrect Form 1099 (as is common), contact the payer that issued it. Explain the error and ask if they have already sent a copy to the IRS. If not, ask them to destroy it and issue a correct one. If so, ask for a "corrected" 1099 (there's a special box for this). See [Care With Forms 1099 Helps Audit-Proof Tax Returns](#). You want every income item to match up, every claimed deduction or credit to be approved, and every schedule you attach to pass muster.

3. Keep Business and Personal Separate. You may do things with a dual motive like a pleasant lunch with a business colleague, a boondoggle with your best customer or buying a vacation home you also intend as an investment. But these are fertile areas for tax disputes. Your tax life will be easier if you avoid morphing personal into business, including:

- Deducting the cost of your divorce because your business is at risk;
- Deducting a miserable vacation with a client; or
- Claiming your hobby was really for profit.

If possible, avoid these situations. It's safer to separate your business and personal lives.

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