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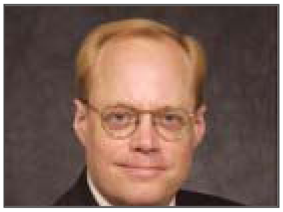

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Top 10 Tax Mistakes To Avoid At All Costs

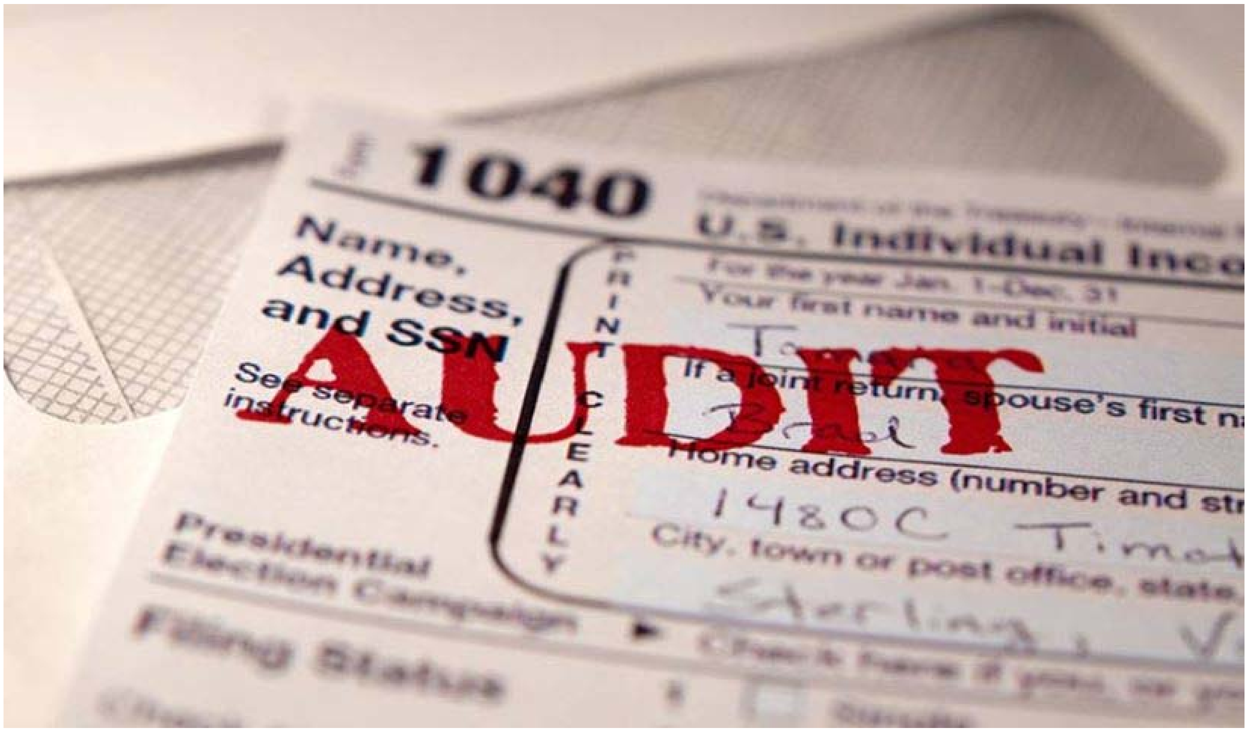
A tax audit involves the time and expense of being examined and often a tax dispute. Avoid these common mistakes and you'll reduce your chances of grief from the IRS.

1. Failing to Declare Income. Apart from very few special rules, everything is income to the IRS. So regardless of whether you receive a Form 1099, declare it. If the IRS audits you, it can ask for your bank records and compute income that way.

2. Sloppy Records. Maybe its karma, but keeping good records can keep you out of trouble in the first place. Most audits are by correspondence. To respond quickly and thoroughly, here's what to do.

3. Missing Forms 1099. Much of what the IRS does is information return matching, the endless correlation of taxpayer ID numbers and payments from Form 1099-MISC, interest Form 1099-INT, and many others. Keep track of your Forms 1099. Don't stick them in a drawer when they arrive, examine them.

If you receive an incorrect Form 1099, contact the payer, 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 since care with Forms 1099 helps audit-proof tax returns.



4. Commingling Business and Personal. You may do things with a dual motive like a pleasant lunch with a business colleague or boondoggle with your best customer. But 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.

It's safer to separate your business and personal lives.

5. Ignoring Timing. Just about everything in taxes is about timing. It affects when you have income and when you can claim deductions. If you push away a paycheck and say "pay me later," it is income now. If you sign papers selling your house and then notify the seller you want to be paid next year rather than immediately. In contrast, if you sold your house now calling for the purchase price to be paid to you in January, it will be respected as long as it is in the original contract.

6. Claiming Flaky Deductions. No, I don't mean home office deductions (though some say they are likely to be audited). I mean ones you know in your heart are quite aggressive or downright made up. You file under penalties of perjury. Sure, you might skate by. But is it worth worrying about, worth a dispute or, in an extreme case, being prosecuted? Probably not. Get some advice about your deductions if you're unsure. But if professionals tell you not to do it, you probably shouldn't.

7. **Forgetting Foreign Income**. This is a biggie. You won't get Forms 1099 from foreign banks. If you have income from abroad, report it regardless of the amount. Even an account with less than $10,000 may have taxable interest. Interest, rent, dividends, are all taxable in the U.S. even if you are paying tax elsewhere. (If you are paying foreign taxes, you may get a credit on your U.S. taxes but must still report it.)

8. **Forgetting Foreign Accounts**. Once you report the interest and other income from abroad, if the total of your offshore accounts is over $10,000 in the aggregate at any time during the year, you must file an FBAR. They are due by June 30 each year, and the deadline is not extendable, even if your tax return is on extension until October 15.

9. **Ignoring Entities**. Whether foreign or domestic, if you own stock in a company or interests in a partnership, don't ignore it. Apart from any forms and returns those entities must file, it often impacts your personal return as well. Just one example is Form 5471 for interests (as small as 10%) in foreign companies. If you fail to file it, the statute of limitations on your return never expires.

10. **Ignoring Filing Status**. Although 95% of married people file jointly, it's not always best, especially if one may have past financial issues, they have different immigration statuses, etc. Consider it both ways before you decide.

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.