

Worried About Asking for a Large Refund?

By Robert W. Wood

If you are getting a tax refund, you'll be more anxious to file your return than if you're writing a check. This may sound crazy, but even if you're entitled to a refund, should you ask?

Many taxpayers worry that if they compute their tax and are asking for a whopping check back, their audit exposure goes up. You may have had too much tax withheld from your paycheck, or made estimated tax payments during the year that turned out to be too big. Tax advisors are generally not permitted to play audit lottery, and usually must assume every return (and therefore every substantive tax position) will be examined by the Internal Revenue Service.



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In reality, of course, not every return will be audited, and there's nothing wrong with trying to make a tax return not stick out of the pile. But until you've filed a tax return, your withholdings and estimated payments are more of a deposit. For this reason, you generally shouldn't feel that your audit exposure increases materially if you are entitled to a refund.

Nevertheless, there are situations when not asking for the money back may be wise. You can roll forward all or part of your refund to next year's tax. For example, let's say you received a large legal settlement during the year and there's a question whether it is ordinary income (taxed at 35 percent) or capital gain (taxed at 15 percent). You and your tax advisers think you have strong arguments it is capital, but you would rather avoid fighting about it with the IRS.

Let's assume you've already paid enough in withholding and estimated tax to be entitled to a big refund if you file your tax return claiming capital gain treatment. Rather than ask for the refund, you might want to apply it to your next estimated payments, especially if you would otherwise have to make those soon.

By their very nature, amended tax returns are more likely to

be examined by the IRS. So if you file an amended return asking for lots of money back, the IRS is likely to look at the situation carefully. Here, the strategy of not requesting the money back and instead applying the amount to your estimated tax payments can be a wise one. Every situation is different, but more strategizing is clearly appropriate with amended returns.

If you file your return and are entitled to a refund, you can ask for a paper check, direct deposit or U.S. Savings Bonds. (You can now use your refund to buy up to \$5,000 in U.S. Series I savings bonds in multiples of \$50.) Paper check or direct deposit is your choice even if you don't file your return electronically. If the IRS encounters trouble making the direct deposit, it will send a paper check.

If you filed a paper return, the IRS says to expect your refund within about six weeks. If you filed electronically, expect your refund within three weeks. A faster refund is a big advantage of electronic filing, but I still prefer to file the old-fashioned way — on paper. When we are all required to file electronically, I'll comply. But until then — rightly or wrongly — I prefer paper, especially if your return is big and complicated.

One way to find out about the status of your current year refund is to go to www.irs.gov and click the "Where's My Refund?" link. You'll need your name, Social Security number, filing status and the exact whole dollar amount of your refund shown on your return. You can also phone the IRS Refund Hotline, 1-800-829-1954.

If you get a smaller than expected refund check, go ahead and cash it. You'll get (usually separately in the mail) an explanation of the difference between the refund you requested and the amount the IRS sent. You usually have a right to dispute what the IRS has done, but consider whether it is worth it. If you later prevail, the IRS will send you a second check for the disputed amount.

If your refund check is less than you expected and you haven't received a written explanation within two weeks, try calling 1-800-829-1040 for an explanation. They may be able to explain over the phone or send you another copy of the explanatory notice. If you receive a larger refund than you expected, don't cash it until you receive a notice explaining the difference. If you know the check is too much and you can't get an explanation, don't cash it. The IRS will eventually track you down and want its money back, usually with interest. So if you think you're in this "big mistake" category, check with the IRS. This may be annoying, but you'll be even more annoyed if you cash the check and later have to give it back.

Be careful with refund checks, you'll encounter delays and inconvenience if you lose it and need to have it reissued. If your address changed and you never got the check, you can change your address with the IRS online and then apply for the IRS to reissue the undelivered check.

