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THE TAX LAWYER

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### Care With Forms 1099 Helps Audit-Proof Tax Returns

It's only natural to hope your tax return is not audited. See [10 Ways To Audit Proof Your Return](#). In truth, of course, no return is audit-proof. While you can't control many things, one thing you can address is how you handle your Forms 1099.

Forms 1099 come in many varieties, including [1099-INT](#) for interest, [1099-DIV](#) for dividends, [1099-G](#) for tax refunds, [1099-R](#) for pensions and [1099-MISC](#) for miscellaneous income. These forms are sent by payors to both you and the IRS. See [The Truth About IRS Forms 1099](#). Regardless of how many 1099s you receive, make sure they all are accounted for on your return.

The same goes for Forms 1098 which lenders send (to you and the IRS) recording how much interest you paid. The IRS matches your return against the 1098s and 1099s. One way to **guarantee** an IRS query is to fail to account for something.

**Correcting Mistakes.** What if you receive an **incorrect** Form 1099? Contact the payor that issued the erroneous form as soon as you receive it. Explain the error and ask whether they have already sent a copy of the 1099 to the IRS. If not, ask the payor to destroy the old form and issue a new one.

Even if you think you've resolved the issue, keep a record of such communications. If possible, get a letter from the payor acknowledging

their error. You may end up ensnarled in a reporting mess later on. If the payor has already sent a copy of the erroneous form to the IRS, you can still ask for a correction. In that event, the payor should issue a “corrected” 1099 (there’s a special box for this).

What happens if the issuer won’t cooperate? There’s no good answer. You’ll want to address this on your return.

**Example:** Suppose you received a Form 1099 for \$30,000 even though you *actually* were only paid \$20,000. You should still show the \$30,000 figure. One way to make the correction would be to report the correct \$20,000 amount but disclose on your return that you actually (and erroneously) received a Form 1099 for \$30,000.

The difficulties faced by taxpayers who receive erroneous Forms 1099 are one reason to be as specific as possible in written agreements, even about Forms 1099. For example, in settling litigation, I like to have a settlement agreement that is very specific about each Form 1099 that will be sent. For more tips about tax issues in settling litigation, see [10 Things To Know About Taxes On Damages](#).

**Don’t Ask.** If you don’t receive a Form 1099 you expect, don’t ask for it. You know about the income, so just report it. The IRS computers have no problem with that kind of mismatch! If you call or write the payor asking for a Form 1099, the payor may issue it incorrectly. Alternatively, you may end up with two of them, one issued in the ordinary course (even if you never received it) and one issued because you called. The IRS computer might end up thinking you had twice the income you really did.

For more about Forms 1099, see:

[Ten Things You Should Know About 1099s](#)

[Got IRS Forms 1099? More Soon](#)

[IRS Form 1099 Wars](#)

[I’m Sending An IRS 1099: 1099 Are You Outta Your Mind?](#)

[Adjust Recordkeeping Before Form 1099 Onslaught](#)

## Let There Be Forms 1099

### Forms 1099 For Cost Basis: What, Me Worry?

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