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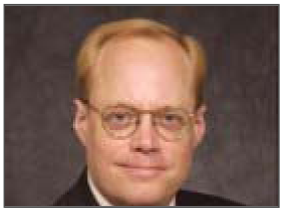

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THE TAX LAWYER

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Three (Incredibly Simple) Rules To Keep The IRS Away

three (Photo credit: mrbill)

We all have to pay taxes and no one wants any trouble. Follow these three simple 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: your deductions will 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 will be caught and can trigger bigger problems. There are different Forms 1099 for miscellaneous income (Form 1099-MISC), interest (Form 1099-INT), etc.

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 1099 (as is common), contact the payor that issued it. Explain the error and ask if they have already sent a copy to the IRS. If they have, ask for a "corrected" 1099 (there's a special box for this). See Care With Forms 1099 Helps Audit-Proof Tax Returns.

You need a system to record and track 1099s. That's exactly what the IRS does. See Watch Your Mail For 1099s.

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 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. Simple but effective.

Robert W. Wood practices law with Wood LLP, in San Francisco. The author of more than 30 books, including Taxation of Damage Awards & Settlement Payments (4th Ed. 2009 with 2012 Supplement, Tax Institute), he can be reached 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.