



Robert W. Wood

THE TAX LAWYER

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Three Simple Tax Rules To Steer Clear Of IRS

Respect these three simple tax rules and you'll reduce your chances of coming to grief with the IRS.

1. Keep business and personal affairs separate. You'll be better off if you can separate your tax life into business and personal. Trying to morph personal matters into business ones is asking for trouble. I'm thinking of people who:

- Try to deduct the cost of their [divorce](#) because their business is at risk.
- Try to deduct a miserable vacation with their best client.
- Claim their [hobby activity](#) was really engaged in for profit, writing off expenses against other income.

There are many provisions in the tax law that recognize dual purposes. Still, try to avoid such dual-purpose goals and do your best to categorize things appropriately. Your tax life will be easier.



2. **Keep good records.** You might think keeping good records is only something that can help you if you end up in a tax controversy. Yet keeping good records can keep you out of tax trouble in the first place. Maybe it's karma. Moreover, this rule isn't just for people who run businesses.

Does the IRS really care about this sort of record keeping? Yes. Most audits are [correspondence audits](#). You may be asked about a particular category of deductions or be told that your deductions will be disallowed unless you mail back records substantiating them.

3. **Respect and keep those 1099s.** How you handle third party "information returns," such as Forms [1099](#) will influence how hard a time you have when you file your return and interact with the IRS thereafter. Much of what goes on at the IRS is matching—the endless correlation of taxpayer identification numbers and payments. Even a small mismatch between what's on these forms and what you report on your tax return could result in months of hassles with the IRS.

Pay attention to these little forms as they arrive. You may get a statement from your bank that looks like your regular statement, but says it is a 1099. When you get your 1099s, don't just stick them in a drawer. Examine them.

If you [receive an incorrect 1099](#), contact the payor, explain the error, and ask whether they already sent a copy to the IRS. The best corrections are done this way, with the payor destroying the old form and issuing a correct one. Keep a record of such communications, since you may end up 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.

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