

10 Taxpayer Mistakes and Rules for Filing Smart

How to avoid the nasty April surprise.

By Mark J. Lowen

1. **Mistake:** Not looking at your whole financial situation. **Smart Rule:** Be thorough. Beat the April 17 tax-filing deadline, with time to spare. Consider hiring a professional to help you with your record keeping if you feel that you don't have time to be thorough. Also, QuickBooks and Quicken are wonderful financial software packages for this purpose.
2. **Mistake:** Having inaccurate numbers. The IRS, and Franchise Tax Board as well, are made up of people, and if you feed them faulty numbers, you might annoy them. This might make them less likely to be willing to work out an available payment plan with you, should you require one. **Smart Rule:** Be precise. If you do file your own return, and this is not recommended, at least have a professional review it.
3. **Mistake:** Leaving money on the table because you are not sure if it is allowed. **Smart Rule:** Grab every deduction you can. The IRS is actually making it easier, on an annual basis, to take deductions, especially for business owners. Use a pro to help you find them. Business owners should also incorporate their businesses, which is a fairly simple process, very early in the tax year. Why allow the IRS or Franchise Tax Board to spend money you have already legitimately spent?
4. **Mistake:** Lying. If you get caught you could go to jail or pay a stiff penalty, or get ALL of your returns audited. That's how they caught Al Capone. **Smart Rule:** Be honest. Why take the chance when there are so many legitimate ways to save on taxes that take so little effort. If you are unsure, ask a CPA, Enrolled Agent (E.A.), or a bookkeeper.
5. **Mistake:** Having no idea what your finances really are. **Smart Rule:** Be organized (and if you aren't, hire someone—we're out there). Know your spending categories, track them, learn which are tax-deductible and which are not, and keep only the important receipts. This is where the big savings happen. Also, make certain to keep old tax returns for six years and pertinent receipts and bank statements for at least three, in case by some small chance you are ever audited.
6. **Mistake:** Not filing. People who don't communicate may be the real ones at fault, not the IRS or Franchise Tax Board. **Smart Rule:** Don't be afraid of extensions. If you are not ready to file your returns by April 17, request an automatic 6-month Extension by that date. This will give you more time to pull everything together, although it is still good idea to estimate if you will have any tax liability and pay something by April 17. This also applies to Partnerships and

LLCs, while calendar-year Corporations have a March 15 filing deadline, and can request a 6-month extension from that date.

- 7. Mistake:** Being late, not filing, not paying, because it's not the right amount, or because you can't afford what you think you have to pay. **Smart Rule:** Refer to point number 6. Even if you can't pay by the due date, at least file a timely extension, or ask for an Installment Agreement, which allows you to pay in monthly installments, with a small amount of interest. In oftentimes not so extreme cases, the IRS is willing to accept an Offer In Compromise, which allows you to pay a percentage of the total amount owed, and stops penalties and interest from incurring.
- 8. Mistake:** Not trying out a deduction. **Smart Rule:** Sometimes it's ok to guess. The worst that could happen is you might have to pay the tax in a few years. Like with stocks, most preparers, and some well-trained bookkeepers can help you decide your appropriate risk level, and suggest other deductions you may be missing, especially if you have your own business or are incorporated. Most tax professionals are also well aware of which tax-deductible IRA is most appropriate for your situation. Also, if you feel you have missed deductions in the past that could have saved you tax dollars, consult with a professional. You have 3 years from the date the return was due, including extensions, to amend the return.
- 9. Mistake:** Not paying your quarterlies, or Estimated Tax Payments, or declaring too many exemptions, if you are employee, and ending up with a big year-end bill. **Smart Rule:** Avoid underpayment penalties. Get enough taxes taken out, even if you're an employee. Again, a professional can help you keep your records properly categorized, and help you determine the proper employee business expenses to take.
- 10. Mistake:** Living "outside the system". You're too far gone, you might think. **Smart Rule:** No one really is. You can come in from the cold. If you have past years to file, feel the fear, and just do it anyway. It has been my experience that clients who finally file for past years owe far less than they or the IRS thought they would, and many get a fairly substantial amount of money back. (The IRS is noticeably more user friendly nowadays...).

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