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Top Tax Mistakes Revealed: Five Common IRS Errors to Avoid

The last thing that any taxpayer or business owner wants to face is an IRS dispute. In this Tax Guide, we highlight five common mistakes that are likely to raise red flags with the IRS. Avoid these errors and reduce your chances of facing an IRS tax controversy.

However, if you are already facing an IRS tax issue, don't panic! Please contact us today to learn how we can help you put your tax problems behind you.

#1 - Timing is Everything

You can forget your anniversary, your mother's birthday, or your gym locker combination but DO NOT get in the habit of forgetting IRS filing or response deadlines. April 15th is a date most people know for yearly personal tax returns, but many people often forget March 15th is the filing date for yearly corporate returns, or that quarterly employment taxes are due within 30 days of the last day of each fiscal quarter. The deadline for US Citizens living abroad is June 15th. Don't let "not knowing" be an excuse you didn't file on time. Find out about your obligations and make sure to file before the deadline, or file an extension before your filing is late. The reason is simple - penalties begin to accrue from the very first day you miss the deadline. And the penalties add up quick. Not only can you be penalized 5% per month for failing to file your taxes, but also an additional 0.5% per month for failing to pay. The maximum penalty is 25% - but considering that means you'd have to come up with an extra $250 for every $1000 you owe, this expense can quickly get out of control. Set yourself reminders on your phone and calendar and adopt a policy of filing a month ahead of the deadline. And, should you receive a request for more information from the IRS, carefully note the date so that you don't make matters worse by missing the deadline.

#2 - Don't Mix Business and Personal Funds

If you own a business, you've undoubtedly been tempted to resolve personal cash flow issues with money that technically belongs to the business. While your business can make you a loan or supplement your income with a bonus, do not make the mistake of allowing the business to cover what should be personal expenses. If you have a business credit card with airline miles, do not use to purchase airline tickets for your family vacation. Yes, it stings a bit to not get those miles - but not as much as an IRS Audit. "But isn't it MY money?" you might ask. The simple answer is "No." It is the company's money and you are the CEO or President. It can be very tempting to mix business funds with personal funds - but doing so could cause a world of trouble for yourself.

#3 - Go the Extra Mile to Document Mileage

Whether you work for a company that requires you to travel or you travel in support of your own business, mileage can be one of the most substantial deductions you can take at the end of the year. But many people often misrepresent or misuse this tax benefit. The most common mistake is thinking that mileage deductions apply to your daily commute… they don't. Mileage expenses are designed to reimburse drivers that use their own vehicles to complete company business - making deliveries, driving to meetings or presentations, taking a car trip to visit a client or conference, and other similar tasks. Simply going back and forth between home and the office does not apply in most circumstances. When drivers do qualify for the mileage deduction, they often fail to check what the prevailing IRS mileage rate is at any given time. They assume it is the same as the previous year - when in fact it can change from year to year or even within a given year depending on cost of gas and other travel expenses. If you intend to take the mileage deduction, get in the practice of recording your actual mileage for each trip (as opposed to estimated cost), along with the date, and then check the prevailing rates for those dates and calculate them as appropriate prior to filing your taxes.

#4 - You Can't "Wish" Problems Away

If you receive a notice from the IRS, don't assume that it's a mistake and absolutely don't expect the problem to resolve itself on its own. You will want to respond as soon as possible. If it IS a mistake, you'll want it resolved right away. If it's not a mistake, you'll want it addressed before fines, penalties, interest, or criminal charges occur. Phoning the IRS can be a threatening experience for someone unaccustomed to dealing with them. A tax attorney or another representative will not be able to speak with the IRS on your behalf without an executed Power of Attorney form, but you should always consider taking this step before contacting the IRS on your own. We highly recommend contacting a tax professional before speaking to the IRS in any fashion.

#5 - Pushing the Limits

Gray area is unavoidable when interpreting various sections of tax code. But there are also clear lines which should not be crossed at the risk of attracting unwanted IRS attention. For instance, parents are allowed to obtain a credit for child care expenses when care is provided so that one or both parents may work. However, some people also try to claim the credit for their child's soccer team, ballet class, or other activities - which are not eligible. Or, they attempt to claim babysitting expenses when parents go out for social reasons - which are also not eligible. If you're caught for stepping over the line, penalties and interest can often be applied all the way back to the first instance the behavior occurred - putting you at that 25% max penalty very quickly and multiplied by the months and amounts you originally owed. Stick with what you can prove you actually spent when it comes to deductions, credits, and reported income. It’s not worth pushing the limits!

Facing an IRS dispute is every taxpayer’s and business owner’s worst nightmare. But the truth is that every tax issue can be resolved, and with the right tax professional on your side the process won’t be as stressful as you expect. While the best-case scenario is obviously to avoid an IRS dispute in the first place, don’t panic should you find yourself facing an audit or other tax-related investigation. If you’d like to discuss your tax situation, please contact us today at (610) 640-9481 and let us work to put your tax problems in the past!