

Debunking the myths

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Debunking the Myths

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As medical professionals, we encourage our patients to think smart about their health, occasionally correcting misunderstandings about the body, medicine, or treatment—and poor second-hand information. The same is true about taxes. There is no end to the confusion that this process generates. Below are just some of the misconceptions that individuals have when it comes to the operations of the Internal Revenue Service (IRS).

I'll go to jail if I do not pay my taxes

The average taxpayer rarely receives jail time for not paying taxes. Only those who promote or display willful negligence toward their tax obligations have much chance of being incarcerated.

Although IRS may utilize liens or levies or con-fiscate assets in an attempt to regain funds, the agency takes steps to work with taxpayers who are non-compliant. For instance, if you are incapable of paying your taxes, payment plans can be arranged or Offers In Compromise are available.

What can you expect if you are delinquent? Every effort is made to resolve the delinquency at the lowest level of administration. IRS and most state agencies follow strict rules to ensure you are given the opportunity to respond to any letters or requests. For example, written notices and warnings must be delivered to you before any action begins, and each letter has a time period that must pass before the next step is taken. Since paying your taxes is a legal obligation, you also have the right to seek representation from an enrolled agent, CPA, or attorney. In rare cases, like a medical hardship, when it is evident that there is no chance of recovery, accounts will be put on hold until circumstances change. Lastly, if IRS steps out of its bounds, the Taxpayers Advocate Office can intervene. This independent agency has the authority to stop or mitigate the actions of IRS when warranted.



Traveling dos and donts

I'll go to jail if I do not file my taxes

Again, it is unlikely that you would receive jail time for not filing on time. When a discrepancy between withholding and reported income is discovered, and no return has been filed, IRS computers generate a series of letters until some resolution is achieved. However, if your tax payments are adequate for the income that was reported and you are due a refund, IRS will not normally contact you. In fact, if you wait more than 3 years to file, you will usually lose your refund. In recent years, more nonfilers due refunds have received friendly letters reminding them to file, but the obligation is still on the taxpayer.

I will (or will not) get audited if...(insert your own theory)

Formal audits should not be confused with the IRS computer matching program. Since most income and withholding items are reported to IRS, when the tax return you file does not match the given data, IRS will send an automated notice. The most common trigger for these letters is a misplaced W-2.

True audits (also called examinations) occur for a number of factors. The most common reason is a high Discrimination Information Function (DIF) score, which is the agency's method of assessing returns. Large deductions or

This is far from true. Between agency contracts, distances traveled, W-4s, and lengths of stay, there can be huge swings in withholding and deductions. Also, a big refund is just an interest free loan that you are giving the government. You are much better off getting that money throughout the year and putting it to use.

I should only be concerned with taxes when it is time to file

How to avoid an audit

Since audits are random or based on contributing factors, there is no real way to avoid one. Even taking the standard deduction and filing a simple return will not clear a lifestyle audit. The best approach is to make sure your return will withstand an audit. This means that for each deduction claimed, you not only have good records, but also a reasonable basis in the tax code for the claim.

How to avoid an audit

The best time to talk with a tax advisor is when taxes are not due. Each new event or plan in your life has a tax consequence. Paying a little extra for someone who is available all year is money well spent.

I can't pay my taxes on time, so I will file an extension

Extensions give you more time to file, not pay. The IRS expects your estimated tax owed to arrive with the extension paperwork. Otherwise, you will be subject to penalties and interest on the amount due.

The next step

To avoid misleading second-hand information, think smart. Ask your recruiter questions and talk with a tax advisor to cut through the misconceptions and determine realistic strategies for the future.

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The preceding discussion is general in nature, and should not be considered advice for any individual tax situation. You should consult with your personal tax planning professional for specific guidance relating to your unique circumstances.