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What if You Face the IRS in Court

If you have to face the IRS in court, would you know how to defend your case? Preparation is the key, but preparation depends on what your case would be about. Another important factor is whether you have a lawyer represent you or you choose to represent yourself. Taxpayers who choose a lawyer to represent them in cases of dispute with the IRS are successful 58% of the time whereas those who represent themselves are successful only 34% of the time. There are a slew of cases that taxpayers and the IRS most frequently contend over in court. Here are some of them and how you can deal with them.

1. Deductible expenses

Among the most frequent sources of contention between the IRS and individual taxpayers is expenses allowed for deduction. This means you deduct certain business expenses that the IRS deems not a business. You will likely receive an audit notice in such a case. This has been most common among animal related businesses as the IRS often sees the animals as pets and the business as a hobby rather than a genuine business. This is especially so if you report the business as a loss making one.

Therefore if you run a loss-making business and you wish to claim deductions on business expenses, you would do well to get the professional opinion of a tax attorney on your case.

2. Non-taxable income

Another frequent source of contention in court between the IRS and taxpayers is what amounts to non-taxable income. Fixed and regular wages, fees, salaries etc are very straightforward. But the contention arises when it comes to things like damages awarded by a court or discharges of debts. Generally, court-ordered damages due to physical injury or sickness are not taxable but other damage payments like damages for emotional distress are. So the best thing to do is to clearly state what the damages are for and have a tax attorney review the final settlement to advise you on how to successfully classify your damages as non-taxable income.

Likewise, when it comes to discharge of debts such as a housing loan debt, it is better to seek proper legal counsel from a tax attorney to find out if your discharge can be tax exempt.

3. Innocent spouse issues

The question of whether an innocent spouse was ignorant of the offending spouse's tax transgressions is another common contentious issue. A spouse is an innocent spouse if there was genuine ignorance. Again, the best route to take in determining this is to hire a tax attorney to review your case.

4. Contributions to charities

This is quite a new type of contention that has been getting more prevalent lately. To determine if the charity you contributed to is a qualified tax-exempt charity is easy but issues arise when determining the value of your contribution if it is in kind. The key here is to obtain official and legitimate valuation of your contribution in kind to any tax-exempt charity.

If you are facing issues with the IRS over some disputed taxes, we are here to help. Call us at (813) 229 7100 for a free consultation.