

# “Dealing With the IRS”



Let it be noted at the outset that I am not an accountant or an attorney. It is your responsibility to confirm all information with your personal tax consultant.

## Initial Contact With the IRS

Initial contact from the IRS to you will always be by standard U.S. Mail. Always. It will never be through telephone or text or email or any other method. If so, you can be assured it is not legitimate.

## Privileged Communication

Communications with your physician and your attorney are privileged. Communication with your accountant is not. You say you are an honest guy, you have nothing to hide or be afraid of. Please. Don't be naïve. Say you have a totally innocent question about something, but is actually unlawful. If you should have any problems in the future, that is discoverable and will require serious explanation.

## Lying to an IRS Agent

Section 1001 of Title 18 of the United States Code says that lying to an agent of the federal government—even when not under oath—is a crime. Lying to the FBI, even when not under oath, is what sent Martha Stewart and (ex) Illinois Gov. Rod Blagojevich, in many others, to jail.

If you are audited, or must have any direct communication with the IRS, it is far better to have someone else, such as

your accountant or your attorney, represent you. One of the first things we were taught in medical school was the question to ask when seeing a new patient, “What brought you in to see me today?” When you meet with an agent of the IRS, I guarantee you the first thing they will say is “Have you reported all of your income?” If you have not, and they find out, you have lied to an agent of the federal government.

## Deductions and Credits

You should do everything legally possible to minimize your taxes. But to make a basketball analogy: stay in the center of the court. The closer you get to the out of bounds line, the riskier.

In the first Star Wars movie, Episode IV - A New Hope, Luke and Obi Wan Kenobi are on the Millennium Falcon. Luke is playing a chess-like game with Chewbacca. He makes a legal move that upsets his opponent. Luke attempts to defend himself, but Han Solo notes sometimes when Wookies get mad they have been known to tear people's arms out. In borderline situations with the IRS, the safest option is to “Let the Wookie win.”

If you are unsure, your accountant or lawyer can call the IRS, but note: an answer to an informal question is not binding on the IRS.

The IRS can be quite disruptive. You do not want them in your life. If you incur their ire because of shady investments or deductions, you could be audited every year, and you are subject to back audits. I would rather be standing at a bar next to an inebriated, thoroughly upset ex-heavy weight boxing champ than have the IRS on my case. At least you could offer to buy the champ another drink.

## State Revenue Department

Many of the above comments about the IRS apply to your state's Department of Revenue. Sometimes they can also be quite aggressive, especially if you make income in multiple states and do not report it correctly. An example would be if you are in a large partnership with multiple locations.

## Be a Good Record Keeper

You must be a good record keeper. No matter how honorable your intentions, if you can't prove it, it means nothing, it didn't happen. I set up my LLC shortly after I retired. I was (quite appropriately) audited because my expenses far exceeded my income. I justified every penny, and there was zero change in my tax assessment.

## Acknowledgments

Dr. Robert Doroghazi is a retired cardiologist who trained at the University of Chicago, the Massachusetts General Hospital, and Barnes Hospital. Warren Buffett said his book *The Physician's Guide to Investing: A Practical Approach to*

*Building Wealth* should be “required reading at med schools”. To sign up for a free trial to *The Physician Investor Newsletter*, visit [www.thephysicianinvestornewsletter.com](http://www.thephysicianinvestornewsletter.com)

general nature, and should not be interpreted as personalized or individualized to your specific portfolio.

## Disclosure

Dr. Doroghazi is not a registered financial advisor under federal law or any state law. The advice provided is of a

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