

7 Habits of Highly Defective Taxpayers

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The title of this post was inspired by Stephen Covey's best-seller [The 7 Habits of Highly Effective People](#).

Just as there are good habits for successfully minimizing your taxes, there are bad habits that can cause you to pay more taxes than necessary. Here's my 7 Habits of Highly Defective Taxpayers:

1. **They don't have a tax plan**

Many taxpayers are upset about how much they pay in taxes, but few actually take a proactive approach by having a [tax plan](#). A tax plan is a road map that helps show you how to complete a taxable transaction such that taxes are legally eliminated, reduced or deferred. It's your step-by-step guide of what options you have today to reduce your taxes now and in the future.

2. **They plan for the current year, by ignoring the effect on future years**

Many taxpayers get all excited when they hear about the latest tax deduction or credit and demand that they utilize it without ever considering if that's the best approach for their specific situation. The most common example is a small business owner who has a loss in the current year and insists on taking a large Section 179 depreciation deduction. This taxpayer would actually save more in taxes, over the life of the asset, if they took the ordinary depreciation deduction instead.

3. **They don't check in with their tax advisor often enough**

Too many taxpayers wait until the year is over to ask their tax advisor what they have to do to save on the prior years' taxes. It's too late by then. The year is over. Whatever you did is done and cannot be undone. Now you're left to preparing the return based on what you did, instead of what you could have done.

4. **They believe tax advice from anyone and everyone**

I keep a file of all the creative tax tips and advice that people have given my clients over the years, thinking someday it would make for a great book, but after sharing some of the information in this file with a friend or two, I realize it's only funny to me. For example, last year one client told me that her florist said she could write off the flowers she bought for her wedding as a tax deduction. The most common one, however, are people asking to write off their speeding tickets as donations. Although these tips may sound great to you, they could land you in big trouble with the IRS.

5. **They are envious of other's large refunds**

Taxpayers who get a refund are getting back money they previously loaned to the government interest free. This is money you could have put in a savings account or invested and made money on it. Instead you let the government use it, free of charge. Taxpayer's who plan either adjust their withholding accordingly or have their tax advisor compute their [quarterly tax](#).

[installments](#), utilizing the annualized method. This way the taxpayer has their money working for them, not the government.

6. They stay with a poor tax professional out of fear

When taxpayers select their tax professional because he's a relative or he was recommended by a relative, friend, neighbor or colleague they have a tendency to stay with the tax professional even when they know the professional isn't very good. They will subject themselves to poor quality, poor service and higher taxes because they don't want to hurt or offend the person who recommended this professional. The irony is that if they actually found someone with good service and high quality work, they could save taxes and feel good about recommending this professional to others.

7. They select their tax professional based on fees instead of quality

An old friend once told me a story about why rich people are rich and poor people are poor. She said that rich people will spend as much as they need to in order to get high quality products and services. The poor will shop around until they find the cheapest product or service and end up paying more in the long run. For example a rich person will buy one couch that costs \$2,000 and lasts 20 years while a poor person will buy a new couch every year for \$200.

If you want to save on taxes, don't choose a tax preparer based on fees; choose a professional based on their experience and quality of work.

Gina L. Gwozdz is a CPA who has chosen to specialize in taxes. Visit her website at <http://GLGcpa.com> to view more Tax Tip Articles.