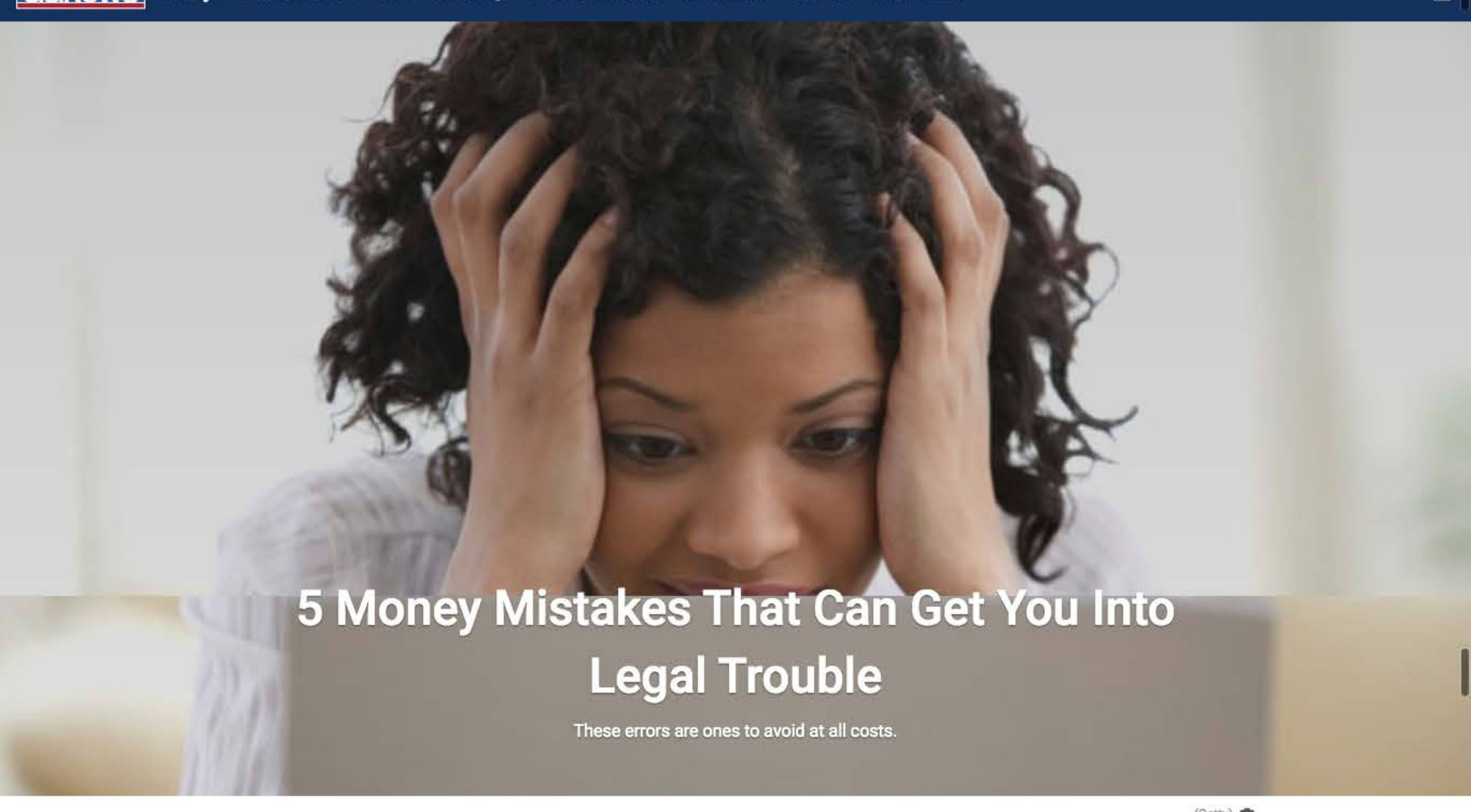

5 Money Mistakes That Can Get You Into Legal Trouble

These errors are ones to avoid at all costs.

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By Geoff Williams | Contributor
Jan. 31, 2017, at 3:26 p.m.

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Consumers are often warned to not waste money for good and obvious reasons – you'll have less of it. But it can't hurt to occasionally remind yourself that financial errors can also cost you peace of mind and even your freedom.

In fact, when it comes to money mistakes that can get you into legal trouble, "there is almost no limit on the possibilities," says A. J. Yolofsky, who owns Yolofsky Law, P.A., which specializes in corporate and international law and estate planning, in Fort Lauderdale, Florida.

This is hardly a comprehensive list, but these are a few snares you'll want to be careful about not stepping into.

[See: 10 Money-Saving Websites to Check Before Shopping.]

Be attentive when putting your signature on paperwork. It's common knowledge that it's often a bad idea to co-sign for a loan because if the borrower doesn't pay it back, you'll be legally responsible to pay it back. Depending on your state's laws, the lender may even be able to come after your assets without going after the borrower.

But, again, you know this. However, sometimes consumers take on a loved one's financial responsibility without really understanding what they're getting into, according to Victor Medina, a registered investment advisor with Private Client Capital Group in Pennington, New Jersey.

Medina says that he has run into clients who have had a relative move into a long-term facility, and the spouse or child has signed on as the person responsible for paying the bills to the assisted living facility.

"That can be a terrible mistake. You are essentially signing as the guarantor or private insurance company to pay the assisted living facility bills if your loved one can't. So they're coming after you if the elder runs out of money or fails to qualify for Medicaid," Medina says. "People know that they shouldn't co-sign an auto loan for their kid, and the same is true for the parent – don't co-sign the bill to pay for long-term care."

So what should you do?

"If you're at a long-term care facility meeting as the power of attorney for an individual, sign where it says for 'resident' or 'applicant' using your name and the phrase 'as agent for' and then [write] the resident's name. Avoid the 'responsible party' line altogether," Medina says.

He points out that many states have programs for Medicaid to pay for the cost of care if your loved one runs out of money.

[See: 11 Ways to Save Time and Money.]

Be careful about mixing your personal wealth with business assets. A lot of self-employed people stumble into legal trouble when they have their business account as their personal bank account, Yolofsky says.

What's the problem? If sued, "the person opens themselves up to having the corporate veil pierced and exposing their personal assets to liability."

Think about it. You can't very well argue in court that your personal assets shouldn't be handed over to somebody suing you if for years you've been dipping into your business bank account for your own needs or spending your own personal money on your business. You can't draw a line between the two worlds the moment an attorney comes after you. Well, you can try, but you've made it harder to make your case.

The International Revenue Service also doesn't really like it when you mix personal and business assets, Yolofsky says.

Be diligent doing your taxes. Since we just brought it up – most tax experts will tell you that you aren't likely to go to jail if you mess up with your taxes, but with the full weight of the law behind them, the IRS can certainly drain your wallet – and in extreme cases, send you to jail if you don't comply with their mandates.

George Connelly, an attorney based out of Houston who heads the tax controversy practice for Chamberlain Hrdlicka, a national law firm, says that years ago he had a client who paid employment taxes for her business and estimated taxes for her personal income tax liabilities but stopped filing returns.

"She figured there was enough money deposited to cover what would have been owed," Connelly says.

As you would expect, it all blew up in her face. "When the IRS finally came calling, it used its own estimates to make those tax assessments, and when she went about correcting them she found that in some cases the deposits were insufficient, giving rise to significant late payment penalties," Connelly says. "[I'm] not sure whether she was trying to save time or money by not filing tax returns, but the entire process ended up being an expensive one for her."

Be wise loaning money to friends and family. Don't worry; you probably won't get into trouble with the law if you lend family and friends money. But if you don't properly document the loan, you won't be able to leverage the law to get the money back, if you wanted to go that route.

"If the person making the loan wants to be repaid, then the loan agreement, a promissory note, should be written out and signed by both parties," Yolofsky says. "In some states, courts will not enforce loans made without proper documentation."

Of course, Yolofsky says it's smart to loan money to friends and family with whom you want to stay on good terms, "with the expectation that the money is not ever coming back."

[See: 12 Money-Saving Ideas for New Parents.]

Be careful with all paperwork, period. Julian Rubinstein, a financial advisor based out of Boca Raton, Florida, says he recently had a client who made a mistake when filling out some bankruptcy forms.

"He made these common innocent mistakes that are considered fraud. This client is now in jail," Rubinstein says.

Jail? Well, it can happen. Think about all the times you've heard of people not paying traffic tickets and winding up in the clink. Last year, a library in Alabama made news for threatening to enforce a policy that could lead to jail time for adult borrowers who weren't bringing back books. If you mix money with being careless or simply not understanding your paperwork, as unlikely as it may be, you could find yourself behind bars.

Rubinstein says that this particular client wound up in jail because he had recently cashed in his individual retirement account and didn't declare the IRA distributions as income in his paperwork. The court saw that as fraud.

But the real blunder, Rubinstein says, was not hiring a good bankruptcy attorney.

12 Ways to Save Money at Home

SLIDESHOW

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Use what you already have.

(iStockPhoto)

Sometimes, saving money is as easy as taking advantage of the items you already have around the house, and either transforming them for a new purpose or simply recognizing the many uses of a single product, like baking soda (it goes in cookies and on your teeth – and can also make a fridge smell better!). Here are a dozen ways to save money at home from our Frugal Shopper bloggers:

NEXT: Leverage your dental floss.

Tags: personal finance, financial literacy, taxes, money, small business

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Geoff Williams has been a contributor to U.S. News since 2013. He has been a freelance journalist for over 20 years, specializing in personal finance and small business issues. His work has appeared in numerous publications, including CNNMoney.com, The Washington Post, Entrepreneur Magazine, Entertainment Weekly and Forbes.com. He is also the author of several books, including "Washed Away," about the great flood of 1913, "C.C. Pyle's Amazing Foot Race," about the infamous Bunion Derby of 1928 and "Living Well with Bad Credit." You can follow him on Twitter @geoffw.

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