

IRS Continues Push for Tax Compliance During Economic Downturn

As the economy slows and the federal deficit increases, the Feds need the IRS to find more money. This means that a growing number of taxpayers can expect to be audited.

In fiscal year 2007, IRS audit rates were up from the previous year for individuals overall. As well as audits of S Corporations were up 26% and audits of partnerships increased almost 25% from 2006.

According to tax expert Michael Rozbruch, the IRS will continue to increase audits of corporations, partnerships and individuals. And if you do receive an audit letter, you should respond strategically and by the deadline in order to avoid being placed in the collection department.

"If the IRS garnishes your wages, they can take as much as 75% of your net pay and

make you live on \$168 a week," said Rozbruch, founder and CEO of Tax Resolution Services, a company that provides affordable solutions to people with IRS problems. "The IRS is the most brutal collection agency on the planet."

While taxpayers can expect renewed IRS compliance efforts, the national credit crisis will make it even more difficult for Americans to pay their taxes. But Americans who anticipate having problems with their taxes should know that there are ways to work with the IRS.

"Not filing your taxes is the worst thing you can do because you can incur a 25% failure to file penalty right off the bat," Rozbruch said. "What you need to do is start lining up expert tax representation to help negotiate a payment plan or an offer in compromise on your behalf."

Laugh Out Loud

A distraught senior citizen phoned her doctor's office. "Is it true," she wanted to know, "that the medication you prescribed has to be taken for the rest of my life?"

"Yes, I'm afraid so," the doctor told her.

There was a moment of silence before the senior lady replied, "I'm wondering, then, just how serious is my condition because this prescription is marked 'NO REFILLS'."

Tax Calendar for Nov

Business:

15 – 1065 with extension is due
Payroll Tax Deposit

20—Monthly state sales tax due

SWTC Can Help

SWTC will give you peace of mind for the upcoming tax season. Our continuing education and membership in tax professional organizations keeps us current with tax law changes. Our M.B.A with concentration in accounting, gives us the tools to prepare and maintain your financial statement for the tax return.

Who is Self-Employed?

If you are in business for yourself, or carry on a trade or business as a sole proprietor or an independent contractor, you generally would consider yourself self-employed and you would file Schedule C with your Form 1040.

If you are self-employed you must pay Self-Employment Tax

Self-employment tax (SE tax) is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners.

If you are self-employed you must pay Estimated Taxes

This applies even if you also have a full-time or part-time job and your employer withholds taxes from your wages. Estimated tax is the method used to pay tax on income that is not subject to withholding. If you don't make quarterly payments you can be penalized for underpayment at the end of the tax year.

Recordkeeping for All Businesses

Why should I keep records?

Good records will help you monitor the progress of your business, prepare your financial statements, identify source of receipts, keep track of deductible expenses, prepare your tax returns, and support items reported on tax returns.

What kinds of records should I keep?

You may choose any recordkeeping system suited to your business that clearly shows your income and ex-

penses. Except in a few cases, the law does not require any special kind of records. However, the business you are in affects the type of records you need to keep for federal tax purposes.

How should I record my business transactions?

Purchases, sales, payroll, and other transactions you have in your business generate supporting documents. These documents contain information you need to record in your books.

What is the burden of proof?

The responsibility to prove entries, deductions, and statements made on your tax returns is known as the burden of proof. You must be able to prove (substantiate) certain elements of expenses to deduct them.

Business Expenses—What are they?

Business expenses are the cost of carrying on a trade or business. These expenses are usually deductible if the business is operated to make a profit.

What Can I Deduct?

To be deductible, a business expense must be both ordinary and necessary. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business.

It is important to separate business expenses from the following expenses:

- The expenses used to figure the cost of goods sold,
- Capital Expenses, and
- Personal Expenses.
- Business start-up cost
- Business assets
- Improvements

Cost of Goods Sold

If your business manufactures products or purchases them for resale, you generally must value inventory at the beginning and end of each tax year to determine your cost of goods sold.

Capital Expenses

You must capitalize, rather than deduct, some costs. These costs are a part of your investment in your business and are called capital expenses. There are, in general, three types of costs you capitalize.

Personal vs Business Expenses

Generally, you cannot deduct personal, living, or family expenses. However, if you have an expense for something that is used partly for business and partly for personal purposes, divide the total cost between the business and personal parts. You can deduct the business part.

- Business Use of Your Home
- Business Use of Your Car

Other Types of Business Expenses

- Employees' Pay
- Rent Expense
- Interest
- Taxes
- Insurance

Motivational Quote

"Take risks. Take chances. Don't be afraid. You gotta go into life brave."

Billy Joel (1949 –) Singer, pianist and songwriter