



# CLIENT NEWSLETTER

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## ***Filing Deadlines***

This year's tax filing deadline is extended by three days (to April 18) because of the Emancipation Day holiday celebrated in DC on April 15. Next year's filing deadline will be extended, too. Emancipation Day will be observed on April 16, 2012 (April 15 is a Sunday), so the due date for returns will be Tuesday, April 17, 2012.

Instructions for the 2006 income tax had an incorrect due date because the IRS had not yet learned about the holiday.

**Taxes:** Of life's two certainties, the only one for which you can get an automatic extension.

*~Author Unknown*

## **Get a budget through Congress!**

As this is written Congress is wrestling with a final budget package for the current fiscal year. As a matter of course, I don't give this much thought; however, at this time of year with tax filing proceeding at an ever increasing pace with a mandatory requirement to electronically file returns, that system will grind to a halt if government employees are furloughed for any length of time. The current continuing resolution expires 10 days before the April 18, 2011 filing deadline. In testimony before a subcommittee of the House Ways and Means Committee on March 31, 2011 IRS Commissioner Doug Shulman is also concerned—and predicted "potentially devastating effects" should discussed tax cuts to IRS proceed, leading to a loss of four billion in lost revenue.

The only thing on my mind now is a successful completion of the current filing season.

## **Tax Court Cases**

When reading the summaries of tax court cases, often the most striking element is "how on earth did this end up here?" The tax position is so egregious that it's difficult to believe the taxpayer/preparer had the nerve to put it on paper in the first place. Every once in a while there are decisions that are surprising and informative:

- Having learned of the therapeutic affects of dancing, many taxpayers have tried to deduct the cost of lessons. IRS has denied any deduction for varicose veins, arthritis or nervous disorders as "not medically necessary."
- The bodybuilder was allowed a deduction for the oils used to highlight musculature in competition, but not the protein foods that were consumed.
- Exotic dancer, Chesty Love, was able to deduct her enhancements. She maintained the bigger bust line would increase tips and the IRS agreed that her "stage prop" was essential to her act!
- Owners of a dairy went on an African safari and were able to write off the trip by claiming that much of the dairy's promotional activities and marketing involved wild animals.
- A junkyard had a snake and rat problem so food was set out to attract wild cats. The cats made the business safer for customers so the pet food was deductible. The traditional junk yard dog is also an allowable business expense.
- However, a taxpayer who hired someone to watch the dog during the work day was not allowed to deduct the cost using the day-care tax credit for children and legal dependents!
- A gas station owner gave customers free beer. The IRS agreed with this business boosting promotion. On the other hand, a businessman who tried to deduct several cases of whiskey given to clients as "entertainment" was denied.
- A furniture store owner tried to sell the business for years. In desperation, the businessman hired someone to burn the place down. Insurance paid \$500,000. The store owner deducted the arsonist's \$10,000 "consulting fee." Both of these players ended up in jail.

## Economic Trends

1. **Our current recession has many small businesses on edge because the duration of this recession has been so long.** Since 1854, the average length of a U.S. recession has been 17 months from peak to trough, according to the National Bureau of Economic Research. For perspective, the Great Depression lasted 43 months. Our current recession started in December 2007 (41 months and counting) and the end is not yet in sight. And when things improve, economists are saying it will be gradual. To compound this issue, there is still a liquidity crisis which makes it difficult for the small business market to pick up the slack and reverse this crisis.

2. **Shift in type of employment.** Small business employers are shifting from full-time employees to part-timers, freelancers, outsourced services, partnership arrangements, and other forms of contingent workers.

3. **Micro-Businesses will rise** – As more and more skilled workers are on the sidelines and become disenchanted with the prospects for gainful employment, there will continued increases in micro-businesses (solo owners with no employees). This movement will be fueled by the internet, low-cost of technology, and ease to create a home-based business. Moreover, many of these micro-business operators are in multiple arenas.

## At Your Service

Quick updates on what I've been up to lately:

On December 2, 2010 I was a presenter at a day-long workshop on 1099 filing for Lorman Education Services. On March 23, 2011 I participated in a one-hour taxpayer help line sponsored by ABC Action News. I handled phone questions.

As always, your referral is the highest compliment.

## **DATELINE: IRS**

The IRS wants taxpayers to be aware of tax scams. These scams are illegal and can lead to significant penalties, interest and possible criminal prosecution.

Here are three important guidelines to keep in mind:

- You are responsible and liable for the content of your tax return.
- Anyone who promises you a bigger refund without knowing your tax situation could be misleading you, and
- Never sign a tax return without looking it over to make sure it is accurate.

Beware of these common schemes:

**Identity Theft:** It pays to be choosy when it comes to disclosing personal information. Identity thieves have used stolen personal data to access financial accounts, run up charges on credit cards and apply for new loans. The IRS is aware of several identity theft scams involving taxes or scammers posing as the IRS itself. The IRS does not use e-mail to contact taxpayers about issues related to their accounts. If you have any doubt whether a contact from the IRS is authentic, call 800-829-1040 to confirm it.

**Frivolous Arguments:** Promoters make outlandish claims such as that the Sixteenth Amendment concerning congressional power to establish and collect income taxes was never ratified; that wages are not income; that filing a return and paying taxes are merely voluntary; and that being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these or other similar claims. Such arguments are false and have been thrown out of court. Taxpayers have the right to contest their tax liabilities in court, but no one has the right to disobey the law.

## OFFICE NEWS

*Like a hurtling freight train, tax season is roaring to a close.* April 18 is the end of income taxes and May 2 wraps up payroll tax!! I will be out of the office the following dates: **OFFICE CLOSED 5/6**

- May 6 - 11 Maddie graduating!
- May 26 – June 1 Finger Lakes, NY
- June 29 – July 2 FSEA Conference

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