SHOULD YOU FIGHT THE IRS?

You've filed your return and claimed some deductions you weren't certain you should have and now you keep waking up at 3:00 in the morning. The IRS is, after all, stepping up its number of audits. Even if you are audited and hit with additional taxes and penalties, a Government report shows that your chances of reducing the additional assessment is better than you think. 41% of those who challenged the audit received some relief.

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you wait any longer, the government could lay claim to your property as payment of your debt. The appeals division is a separate IRS unit that evaluate IRS decisions. When you do file an appeal you should request a hearing. You can either represent yourself or you can have your attorney or certified public attorney represent you. Keep in mind that it's very hard to get through to the offices on Mondays .3. Seek advocacy. If you feel the size of your refund was wrong, or you have a small tax dispute, you may want to check out the IRS Taxpayers Advocate Office. This is an independent unit of the IRS that may help taxpayers understand and voice their rights. Check out /www.irs.gov/Advocate or call 877-777-4778 for information. Keep in mind, this advocacy group only welds so much power. Ultimately, they must abide by the tax law rules. The IRS Taxpayers Advocate Office cannot make decisions. So, if you have a high profile tax case, think about getting your own hired guns. If you are a low-income taxpayer, (for example, a family of four with income less than $49,000) there are clinics that will assist and represent you in audits and IRS disputes. To see if you qualify, check out publication 4134 at www.irs.gov. 4. Negotiate. If you aren't able to pay the debts you owe, you still may have some wiggle room with the IRS. Pay what you can incrementally. If you owe less than $10,000, getting onto an installment plan is generally automatic for the IRS. For more information, go to form 9465 on www.irs.gov. But keep in mind, with an installment plan, you'll still be charged interest and the failure to pay penalty for the duration of the installment plan. If you have no way of ever paying back the debt, you can ask the agency to compromise on the amount you pay. You have to be in pretty bad financial shape in order to qualify for the compromise. Last year the acceptance rate for these compromises was 20 percent, according to the IRS. If you attach it to the return, they can look at the payment proposal right away. 5. Go to court. If you feel your tax bill is unfair, then head to U.S. Tax Court where you won't have to pay the contested tax unless you lose. This court specializes in tax issues. And for some folks, that could be a drawback. They may have better chances if they go to a district court that hears a variety of cases, not just tax issues. But be wary, other courts may make you pay the contested bill before your case is even heard.

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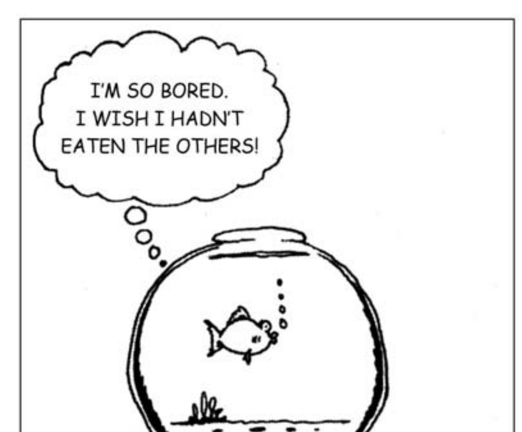
Volume VI, Issue 19
Friday, 9:47 AM

Learn How to Avoid
IRS
problems and solve them if you find yourself with one!

Inside This Issue...



LOSING YOUR CALIFORNIA RESIDENCY

No-income tax states such as Nevada are looking increasingly attractive to retirees. Some want to decrease their taxes because of concern they could outlive their savings. Others want to keep more for themselves and their heirs. Before moving to Nevada, it's important to pay attention as to how you move. Minor mistakes can result in a painful audit and a hefty tax bill from the Franchise Tax Board after you thought you had left California behind. Residency rules are complex and audits highly subjective so make certain your move is genuine. Don't leave personal items such as family photos or jewelry in a part-time residence or a safe-deposit box in California. Join clubs and execute a new will in Nevada. Use your Nevada address when traveling and corresponding with out-of-state utility and telephone companies. Register to vote in Nevada. Obtain a Nevada driver's license and register your car in Nevada. Change your address on all bills to your Nevada address. Expect California auditors to ask for your last three years of diaries, appointment books, personal and business credit-card statements, and telephone bills.

YOUR NEXT AUDIT SCARE

Random tax audits are back! Beginning this fall, the IRS will be randomly targeting thousands of taxpayers for audits even though they have no reason to suspect them of any wrongdoing. IRS officials expect the probes to provide fresh data to update the top-secret formulas the agency uses to help select which returns to audit. The first wave of random audits will start in October and target about 13,000 income tax returns for the 2006 tax year selected from various income categories. The IRS says it intends to conduct random audits on similar size groups in subsequent years. The audits come at a time when the IRS faces intense pressure from Congress to take bolder action to slash the nation's tax gap, which the IRS estimates to be around $290 billion. Capital gains taxes will probably receive substantial attention because the IRS suspects the government is losing billions of dollars because many taxpayers inflate their tax basis.

BREA ATTORNEY FOUND GUILTY OF TAX FRAUD

An attorney who operated a law office in Brea was found guilty on five counts of felony state income tax evasion. Harpreet S. Brar, 35, who also operated a limited liability partnership in Long Beach, failed to file 1999 personal income tax and corporate income tax returns. He also failed to file his 2002 personal income tax returns for the limited liability partnership. Brar, who represented himself, did file a 1999 personal income tax return after the FTB executed a search warrant in late 2004. However, Brar failed to claim about $1.5 million he received from the sale of securities. Brar was arrested in February 2006 for tax evasion.

The FTB claims Brar owes more than $138,000 in additional tax for 1999. According to the State Bar of California, Brar is no longer eligible to practice law.

CHECK

Look back at newsletter issues, articles I've written, and general advice at my website"

www.besttaxadvocate.com

IT OUT

3 RULES OF HOME-OFFICE DEDUCTIONS

It's easy to be hazy about just when you can write off housing expenses if you're self-employed. Here are three key rules you should know. You should take all the deductions to which you're entitled if you work at home. One of the biggest is writing off a portion of your rent or mortgage costs, not to mention utilities and other related housing expenses. The advantage of doing so is to reduce your taxable income and hence, the amount of self-employment tax you owe. But knowing whether you are eligible to write off a portion of your home as a business expense is tricky. The key is in knowing what the words "exclusive," "regular" and "principal" mean. But don't bother whipping out the Webster's for this one because three basic IRS rules determine eligibility, and your workspace must comply with all three. Rule No. 1: "The part of your home used for business must be used exclusively for business." That means a space devoted solely and wholly to your business and nothing else. It does not mean a space that you also use for other activities. So if you and your spouse each run your own home business and share the same room as an office, neither of you has "exclusive" use of the work space. Hence, neither of you gets to take the deduction. The two exceptions to this rule are running a daycare business out of your home and using a part of your house to store business inventory. What you can do is to allocate a portion of a room exclusively for work -- e.g., a 3'x2' desk in the bedroom. If you use that desk for nothing but your business, you may be eligible to deduct the cost for those six square feet of space, assuming the desk also meets rules 2 and 3 below. Rule No. 2: "The part of your home used for business must be used on a regular basis for business." You're self-employed and rent an office or studio outside of your home. But sometimes you use a room in your house to conduct some business – perhaps to bring clients by to see your work. Since the room isn't your regular place of business, you may not deduct it. If, on the other hand, you designate one room in your house for the exclusive purpose of having regular meetings with clients because, say, your office or studio is always a mess, then you may deduct it. Meeting the "principal place of business" rule. Rule No. 3: "Your home office, studio or workshop must be your principal place of business." To meet the "principal" rule, your place of business has to meet one of three criteria: it's where you do your administrative tasks like bookkeeping; it's the place where you bring clients; or it's a separate structure. It does not mean the place where you do most of your business. So you may rent an office in town, but use a portion of a room in your house to do your bookkeeping. The costs for that portion of the home, assuming it's used exclusively and regularly for bookkeeping, may be deducted. Writing off equipment. Whether you're eligible to write off a portion of your housing costs as a business expense, you may be eligible to write off the cost of equipment you use at home in the service of your business, such as a fax machine or a second phone line d edicated to business calls. But it gets tricky when a piece of equipment can be construed as one you also use for personal activities.

For instance, you may not deduct the first phone line in your home, even if it's your only phone line. That's because the assumption is that your only phone is for personal use. You may, however, deduct the bells-and-whistles you add for business purposes, such as call-waiting. And you may deduct the cost of individual business calls. If you only have one computer and you use it for business, you may be able to write off a part of its cost, but writing off 100 percent may not be wise. In the event of an audit, it may be hard to prove that you don't use the computer for personal reasons as well. Speaking of audits, there is "an old wife's tale" that deducting a portion of your housing costs will be a red flag to the IRS. In my experience, this is not so. But there may be other elements on your return that do present a red flag. For example, a taxpayer who might have a salaried job making $100,000 but a side business as a photographer for which he deducts a portion of his housing costs. What may trigger an audit is not that deduction, but rather his reporting $200 in income and $5,000 in expenses. The lesson: Never hide income, only deduct legitimate expenses and keep meticulous records to back up deductions. That way, if the IRS ever does audit you, you won't be penalized.

FRAUDULENT RETURN PREPARATION

In April, the Department of Justice announced that lawsuits had been filed against Jackson Hewitt franchise operators in Atlanta, Chicago, Detroit, and Raleigh-Durham, N.C. The DOJ alleged that the franchises "created and fostered a business environment in which fraudulent tax return preparation is encouraged and flourishes." At that time, the DOJ estimated that the tax fraud had cost the government $70 million in lost revenues, making the case one of the largest fraud cases in recent history. In August, the DOJ secured injunctions against two individuals who worked at a franchise in Atlanta. The DOJ and Jackson Hewitt have reached a settlement that relates to the corporations operating the franchises, owners of the franchises and some of the individuals who worked at the franchises. The corporations operating franchises in Atlanta, Chicago and Detroit will be permanently barred from preparing federal income tax returns. One individual, who owned all or part of the corporations, cannot act as an income tax return preparer for five years. The Raleigh-Durham franchise agreed to similar restrictions. The DOJ reported that cases against some individual defendants in Chicago are unresolved.

"I guess this means no farewell party for Mr. Benson."

CALIFORNIA HALL OF SHAME

California is relying upon the threat of public humiliation to help collect millions of dollars of past due income taxes. The Franchise Tax Board has sent letters to about 250 of the state's largest income tax deadbeats threatening to publish their names unless they resolve their accounts. California is following the lead of other states who say the technique works. Many tax dodgers will gladly deal with their issue in order to keep their friends, neighbors, and co-workers from discovering they're delinquent. The FTB is expecting to collect over $30 million in the next year.

CHECK YOUR RETURN! IRS IS OFTEN WRONG

A bad way to start your day is to receive a letter from the IRS questioning your return. Instantly writing a check is often a costly mistake. IRS notices often contain significant errors. Among the subjects causing difficulty of late are state income tax refunds. This year mistakes were especially easy to make because Congress waited until December 2006 to extend the life of some deductions that had expired at the end of 2005, but by then the IRS had already sent its returns to the printer. Fighting the IRS. 1. Choose your battles. Before you decide to fight back against Uncle Sam, make sure that your gains will be worth it. Taking up a battle against the IRS is no small task. Make sure that you have all the records you'll need, decide how confident you are that you'll win, and look at how much money is at stake versus how much it will cost you to hire a tax expert. Keep in mind that you could spend hundreds, if not thousands of dollars fighting the IRS. They know it, too -- according to Linda Martin, a former IRS Commissioner and director at Deloitte Tax LLP, the IRS generally won't bother to audit a return unless it's about $500. 2. Don't delay. If you get a notice from the IRS that you owe money to the government, make sure you file an appeal within 30 days. If