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Did You Overlook Something on a Prior Tax Return?

Article Highlights:

- Repercussions of Incorrect Tax Returns
- Filing Amended Returns
- Statute of Limitations for Refunds
- Potential of Audit

It is not uncommon to discover that an item of income was overlooked, a deduction was not claimed, or that an amended tax document was received after the tax return was already filed. Regardless of whether the oversight will result in more tax due or a refund, it should not be dismissed.

Failing to report an item of income will most certainly generate an IRS inquiry, which typically happens a year or more after the original return was filed and after the interest and penalties have built up. On the other hand, if you have a refund coming, you certainly don't want that to go by the wayside.

The solution is to file an amended return as soon as the error or omission is discovered. Amended returns can also be used to claim overlooked credit, correct filing status or number of dependents, report an omitted investment transaction, include items from delayed or unexpected K-1s and corrected or late filed 1099s, and account for an overlooked deduction or anything else that should have been reported on the original return.

If the overlooked item will result in a tax increase, penalties and interest can be mitigated by filing an amended return as soon as possible. Procrastination leads to further complication once the IRS determines something is missing, so it is best to take care of the issues right away.

Generally, to claim a refund, an amended return must be filed within three years from the date the original return was filed or within two years from the date the tax was paid, whichever is later.

If you are concerned that an amended return might trigger an audit, be advised that the fact that you amend a return does not, in itself, increase your chances of being selected for an audit. In fact, it might actually reduce your chances, especially if you are fixing something the IRS will find later anyway, such as through their program that matches the information forms (W-2s, 1099s, etc.) that they receive from employers and other payers with the income reported on your return. What concerns many taxpayers about amending returns is that an IRS employee must manually compare the amended return changes with the original. That is why the amended return must include a clear explanation and justification for the amendment and back-up documentation to support the changes, even if these were not required on an original return. If back-up documentation cannot be provided, the IRS may want to dig deeper.

That is why it is so important to provide proof or back-up documents to justify the changes being made. Let's say you forgot to claim a $2,000 church donation. In this scenario, you definitely want to include documentation, such as copies of the acknowledgment letter from the church and your canceled check, supporting the increased deduction.

If any of the above applies to your situation, please give this office a call so we can prepare an amended tax return for you.

Don't Panic if You Receive an IRS Notice

Article Highlights:

- Letter May Be In Error
- Let Your Tax Professional Respond
- Procrastination Leads to Bigger Problems
- Change of Address Complications
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If it is not your refund check in the mailbox, that letter from the IRS will probably increase your heart rate a little. Don't panic; many of these letters can be dealt with simply and painlessly.

Each year, the IRS sends millions of letters and notices to taxpayers to request payment of taxes, notify them of a change to their account, or to request additional information. The notice you receive normally covers a very specific issue about your account or tax return. Each letter and notice offers specific instructions on what needs to be done to satisfy the inquiry.

However, the letters also must advise you of your rights and other information required by law. Thus, these letters can become overly lengthy and sometimes difficult to understand. That is why it is important to either call this office immediately or forward a copy of the letter or notice so it can be reviewed and handled accordingly.

Do not procrastinate or throw the letter in a drawer hoping the issue will go away. Most of these letters are computer generated and, after a certain period of time, another letter will automatically be produced. And, as you might expect, each succeeding letter will become more aggressive and more difficult to deal with.

Most importantly, don't automatically pay an amount the IRS is requesting unless you are positive it is correct. Quite often, you really do not owe the amount being billed, and it will be difficult and time consuming to get your payment back. It is good practice to have this office review the notice prior to making any payment.

Unfortunately, many taxpayers are issued these letters and don't know it because they have moved and left no forwarding address. Even though the IRS will register your address change when you file your annual tax return, that may not be timely enough, especially if your return is on extension or you are behind in your filings. It is always better to notify the IRS, and your state if applicable, that you have a new address, just as you would your family and financial and business affiliations. You may not want to receive correspondence from the IRS, but it is easier to deal with the first notice. The complications can only increase as the notices go unanswered. The IRS provides Form 8822 – Change of Address for taxpayers who have relocated between tax filings.

It is important for any IRS correspondence to be dealt with promptly and correctly. This office can handle these matters for you; so please call for assistance.

Find Lost Money

Article Highlights:

- What is unclaimed property?
- How can you find unclaimed property?
- What are your chances of finding unclaimed property in your name?

Unclaimed property refers to accounts in financial institutions and companies that have had no activity generated or contact with the owner for a period of one year or longer (depending upon state law). Common forms of unclaimed property include savings or checking accounts, stocks, uncashed dividends or payroll checks, refunds, traveler's checks, trust distributions, unredeemed money orders or gift certificates (in some states), insurance payments or refunds and life insurance policies, annuities, certificates of deposit, customer overpayments, utility security deposits, mineral royalty payments, and contents of safe deposit boxes.

Financial institutions and companies will turn these funds over to a state unclaimed property department where the funds are held until claimed by the owner. This typically occurs when you relocate, close a business address, misplace a check, etc. It can also occur if you are the beneficiary of an estate and the trustee is unable to locate you.

There are various ways to locate these assets. There are commercial firms that may seek you out. However, you can perform a search for free in a number of ways. For instance, each state has a website for its unclaimed property department, allowing you to search state by state. Generally, one would only search the state that he or she has been a resident of.

There is also a website developed by the National Association of Unclaimed Property Administrators (NAUPA) that provides links from a map to each individual's state's search site. NAUPA is also currently developing a search site that will locate unclaimed money in all states called missingmoney.com. However, that site is currently under development and does not include all states, so it is wise to check both it and all states in which you have been a resident.

What are your odds of finding some lost money? Well, the author, while researching this article, found three accounts in his name totaling over $1,200. A nice bonus for writing the article! Who knows what you will find, but it only takes a few minutes to check and could yield some pleasant surprises. On its website, NAUPA indicated that the average claim was $892.

If you have any questions, please give this office a call.

Get a Big Refund This Year?

Article Highlights:

- Average refund amounts
- Tax-free loan to Uncle Sam

- Plan your withholding and estimated tax payments

The IRS reported that approximately 118 million Americans received tax refunds in 2013 averaging around $2,640. The average refund this year is expected to be even higher. If you are among those who received a refund, you are probably celebrating. While some consider a large refund to be a cause for celebration, it's actually a financial mistake that becomes particularly costly for those who get refunds year after year.

What's wrong with a refund you, ask? Well, it means that you've overpaid your tax all year. That's actually your own money that you are getting back after making an interest-free loan to Uncle Sam. Such unintended generosity costs you more than you might imagine, even at today's low interest rates. Consider what would have happened had you, instead, invested $220 per month into an investment program, such as a mutual fund, your credit union, an IRA, etc., rather than overpaying the IRS. Instead of waiting for a $2,640 refund, you would have had that amount plus investment earnings in your account—with no waiting. Or you could have paid off any outstanding debt and reduced the interest you paid during the year. If you historically receive refunds each year, you have forgone years' worth of investment income or paid far more interest on debt than you needed to.

The alternative is to plan your annual prepayments through withholding and quarterly estimate payments so that they more closely match your projected tax liability for the year. Your withholding is generally adjusted by changing the number of allowances claimed on the W-4 form you turn in to your employer. The more allowances claimed, the less the withholding. However, be careful that you do not claim too many allowances and end up owing Uncle at the end of the year. You should always double-check your payroll deductions once the change has taken effect to ensure that the proper adjustment has been achieved.

If you need assistance projecting next year's tax and adjusting your withholding allowances, please give this office a call.

Are You In Danger of An Audit?

Article Highlights

- Chances of being audited
- EITC Returns
- Returns with and without a Schedule C
- Audit rates based upon income
- Audit rates for returns other than individual returns

In recently-released data, the IRS divulged the audit statistics for returns the Service audited in fiscal year 2013. It provides information about the number of returns being audited and where the IRS is focusing their enforcement activities.

During fiscal year 2013, the IRS collected almost $2.3 trillion in taxes (net of refunds) and processed more than 240 million returns. More than 118 million individual income tax return filers received tax refunds that totaled $312.8 billion. In fiscal year 2013, the IRS spent an average of 41 cents to collect each $100 of tax revenue.

So what are your chances of being audited? A total of 1,404,931 individual income tax returns were audited, out of a total of 145.8 million individual returns that were filed in the previous year. This is about 0.8% of all individual returns filed, down from the previous year. This downward trend is expected to continue for the foreseeable future because of IRS budget reductions. Only 24.5% of the individual audits were office audits conducted by revenue agents, tax compliance officers, and tax examiners; the bulk of the audits (about 75.5%) were correspondence audits. These percentages are about the same as they were in the prior year. The IRS is pretty savvy at selecting which returns to audit, since approximately 85% of the audits result in the taxpayer owing additional taxes.

What issues are the audits focusing on? Here is a roundup of selected audit rates:

- *Earned Income Tax Credit (EITC)* – EITC continues to be an area of high taxpayer fraud so it stands to reason these returns were and will be the subject of high audit rates. Of the total number of returns audited, 538,562 (34.6%) were selected on the basis of an earned income tax credit claim.
- *Schedule F (Individual Farm Returns)* - About 1.3 million individual returns included farm returns. Of this group, only 5,044 (0.4%) were audited.

Individual returns can include additional business related schedules that can increase the odds of an audit. Among those are Schedule C (non-farm sole proprietorship), Schedule E (supplemental income and loss from rentals, partnerships and S-corporations), or Form 2106 (employee business expenses). The following statistics apply to non-EITC returns including these schedules:

- *Individual Returns without a Schedule C, E, F, 2106* –0.4%
- *Individual Returns with a Schedule E or 2106* – 1.0%
- *Individual Returns with a Schedule C* – These are categorized by size of gross receipts reported on the return:
  - Under $25,000 – 1.0%
  - $25,000 to $100,000 – 2.3%
  - $100,000 to $200,000 – 3.0%
  - $200,000 or more – 2.7%

The IRS also focuses their audits on higher-income returns, as evidenced by the following statistics based on total positive income (TPI):

- *Non-business returns with a TPI of at least $200,000 and under $1 million* – 2.5%
- *Business returns with a TPI of at least $200,000 and under $1 million* – 3.2%
- *All returns with a TPI of $1 million or more* – 10.8%

For returns other than individual returns, the audit rates by type were:

- *Estate and trust income tax returns* - 0.1%
- *Corporations with less than $10 million of assets* - 1.0%
- *Corporations with $10 million or more of assets* - 15.8%
- *S corporations* - 0.4%
- *Partnerships* - 0.4%
- *Estate tax returns* - 11.6%
- *Gift tax returns* - 1.1%

In fiscal year 2013, the IRS assessed 29.07 million civil penalties against individual taxpayers, of which 58.3% were for failure to pay and 26.8% were for underpayment of estimated tax. There were also 731,696 assessments for accuracy and negligence penalties.

The IRS received 74,000 offers in compromise in fiscal year 2013 (up from 64,000 in 2012). An offer in compromise is a proposal by a taxpayer to the federal government that would settle a tax liability for payment of less than the full amount owed. Absent special circumstances, an offer will not be accepted if the IRS believes the liability can be paid in full as a lump sum or through a payment agreement. In 2013, the IRS accepted 31,000 offers for an acceptance rate of about 42%.

Because of the IRS's high success rate for their audit programs, it is probably not wise for a taxpayer to represent themselves during an audit. This is best left to those who understand the audit process and can address potential issues that may arise. So, if you receive an audit notice, the next call you make should be to this office.

Read This before Tossing Old Tax Records

Article Highlights:

- Discarding old tax records
- Statute of limitations
- Basis substantiation

Now that you've completed your taxes for 2013, you are probably wondering what old tax records can be discarded. If you are like most taxpayers, you have records from years ago that you are afraid to throw away. To determine how to proceed, it is helpful to understand why the records needed to be kept in the first place.

Generally, we keep "tax" records for two basic reasons: (1) in case the IRS or a state agency decides to question the information reported on our tax returns, and (2) to keep track of the tax basis of our capital assets so that the tax liability can be minimized when we actually dispose of the assets.

With certain exceptions, the statute for assessing additional tax is **three years** from the return due date or the date the return was filed, whichever is later. However, the statute of limitations for many states is one year longer than the federal statute of limitations. In addition to lengthened state statutes clouding the recordkeeping issue, the federal three-year assessment period is extended to six years if a taxpayer omits an amount that is more than 25% of the gross income reported on a tax return. In addition, of course, the statutes don't begin running until a return has been filed. There is no limit on the assessment period where a taxpayer files a false or fraudulent return in order to evade tax.

If an exception does not apply to you, for federal purposes, most of your tax records that are more than three years old can probably be discarded. If you live in a state with a longer statute, then add a year or so to that number.

> ***For example:*** *Sue filed her 2013 tax return before the due date of April 15, 2014. She will be able to safely dispose of most of her records after April 15, 2017. On the other hand, Don files his 2013 return on June 2, 2014. He needs to keep his records at least until June 2, 2017. In both cases, the taxpayers*

may opt to keep their records a year or two longer if their states have a statute of limitations longer than three years. Note: If a due date falls on a Saturday, Sunday or holiday, the due date becomes the next business day.

The big problem! The problem with discarding records indiscriminately for a particular year once the statute of limitations has expired is that many taxpayers combine their normal tax records and the records needed to substantiate the basis of capital assets. They need to be separated, and the basis records should not be discarded before the statute expires for the year in which the asset is disposed. Thus, it makes more sense to keep those records separated by asset. The following are examples of records that fall into this category:

• Stock acquisition data — If you own stock in a corporation, keep the purchase records for at least four years after the year the stock is sold. This data will be needed in order to prove the amount of profit (or loss) you had on the sale.

• Stock and mutual fund statements — Many taxpayers use the dividends that they receive from a stock or mutual fund to buy more shares of the same stock or fund. The reinvested amounts add to the basis in the property and reduce gains when the stock is finally sold. Keep statements for at least four years after the final sale.

• Tangible property purchase and improvement records — Keep records of home, investment, rental property or business property acquisitions, AND related capital improvements for at least four years after the underlying property is sold.

Have questions about whether or not to retain certain records? Give this office a call first. It is better to be sure before discarding something that might be needed down the road.

8 QuickBooks Reports That You Should Be Running Regularly

QuickBooks provides dozens of customizable report templates. You know when you need some of them, but which are musts?

You send invoices because you sold products and/or services. Purchase orders go out when you're running low on inventory, and there are always bills to pay, it seems like. All of this activity is, of course, important in itself, but all of your conscientious bookkeeping culminates in what's probably the most critical element of QuickBooks: your reports.

Reports can tell you how many navy blue sweatshirts you sold in March, what you paid for health insurance premiums in the first quarter, and how much you bought from your favorite vendor last month. They're very good at drilling down to get the precise set of numbers you need.

But reports – carefully customized and properly analyzed – can do more than tell you how many golf clubs to order and when it's time to switch phone services. They can help you make the business decisions that will help you take your growing company to the next level. There are several that you should be looking at regularly, some of which you can interpret easily and use in your daily workflow. We'll help you with the interpretation of the more complex financial reports.

Who Owes Money?
That's probably a question you ask yourself every day. You don't necessarily have to run the **A/R Aging Detail** report every day, but you'll want to run it frequently. It tells you who owes you money and whether they've missed the due date (and by how many days).

A/R Aging Detail
As of December 15, 2018

	Type	Date	Num	Name	Terms	Due Date	Aging	Open Balance
Current								
	Invoice	12/05/2018	1089	Violette, Mike:Work...	Net 15	12/20/2018		4,732.23
	Invoice	09/12/2018	1058	Allard, Robert:Rem...	Net 15	09/27/2019		14,510.00
	Invoice	10/20/2018	1068	Mackey's Nursery...	Net 15	11/04/2019		13,900.00
	Invoice	10/10/2018	1065	Pretell Real Estate:...	Net 30	11/09/2019		2,239.00
	Invoice	10/15/2018	1066	Cook, Brian:Kitchen	Net 30	11/14/2019		700.00
	Invoice	11/18/2018	1077	Hendro Riyadi:Rem...		11/18/2019		4,223.00
	Invoice	11/15/2018	1076	Vitton, David:Remo...	Net 15	11/30/2019		700.00
	Invoice	11/28/2018	1085	Teschner, Anton:S...	Net 15	12/13/2019		565.95
	Invoice	11/15/2018	1074	Pretell Real Estate:...	Net 30	12/15/2019		1,072.50
	Invoice	11/20/2018	1079	Melton, Johnny:De...	Net 30	12/20/2019		8,618.64
	Invoice	11/25/2018	1080	Cook, Brian:Kitchen	Net 30	12/25/2019		1,636.69
	Invoice	11/25/2018	1081	Cook, Brian:2nd st...	Net 30	12/25/2019		5,418.00
	Invoice	11/25/2018	1082	Jacobsen, Doug:K...	Net 30	12/25/2019		2,320.00
	Invoice	11/25/2018	1083	Burch, Jason:Room...	Net 30	12/25/2019		1,005.00
	Invoice	11/30/2018	1086	Ecker Designs:Off...	Net 30	12/30/2019		1,468.30
	Invoice	12/10/2018	1090	Pretell Real Estate:...	Net 30	01/09/2020		1,715.00
	Invoice	12/11/2018	FC 6	Cook, Brian:Kitchen	Net 30	01/10/2020		5.95
Total Current								64,830.26
1 - 30								
	Invoice	11/06/2018	1100	Babcock's Music S...	Net 15	11/21/2018	24	1,680.00
	Invoice	11/14/2018	1092	Campbell, Heather...	Net 15	11/29/2018	16	13,900.00
	Invoice	11/06/2018	1093	Lew Plumbing - C:...	Net 30	12/06/2018	9	220.00
Total 1 - 30								15,800.00
31 - 60								
Total 31 - 60								

Figure 1: By running the A/R Aging Detail report, you can see whether you need to follow up with customers who have past due invoices.

As with any report, you can modify it to include the columns, data set and date range you want by clicking the**Customize** button. When you create a report in a format that you think you might want to run again, click the**Memorize** button. Enter a name that you'll remember, and assign it to a **Memorized Report Group**.

Getting There
There are two ways to find the reports you want to see. You can open the **Reports** menu and move your cursor down to the category you want, like Customers & Receivables, which will open a slide-out menu of options there. Or you can open the **Report Center**, which lets you explore reports in more depth. Each is represented by a small graphic with four icons under it. You can:

- Run the report with your own data in it
- Open a small informational window
- Designate it as a **Favorite**, and
- View QuickBooks help.

*Figure 2: If you access QuickBooks reports through the **Report Center**, you'll have several related options.*

Other accounts receivable reports that you should consult periodically include **Open Invoices** and**Average Days to Pay**.

Tracking What You Owe

Reports can also keep you up-to-date on money that you owe to other people and companies. An important one is **Unpaid Bills Detail**, accessible through the **Vendors & Payables** menu item. Though you can modify its columns, this report basically tells you who is expecting money from you, the date the bill was issued and its due date, any number assigned to it, the balance due, and relevant aging information.

Vendor Balance Detail is critical, too. This report displays every transaction (invoices, payments, etc.) that contribute to the balance you have with each vendor.

Standard Financial Reports

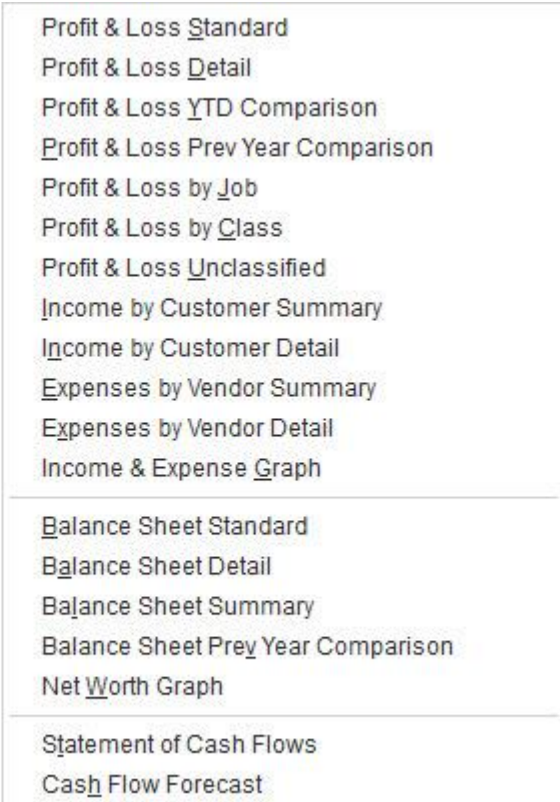

Figure 3: We hope you'll let us help you by running and interpreting these standard financial reports.

QuickBooks report categories include one labeled **Company & Financial**. These are reports that you can run yourself, but they're critical for understanding your company's financial status. We can customize and analyze these for you on a regular basis so you'll know where you stand. They include:

- **Balance Sheet**. What is the value of your company? The balance sheet breaks out this information by account (under the umbrella of assets, liabilities and equity).

- **Income Statement**. Often referred to as **Profit & Loss**, this shows you how much money your business made or lost over a specific time period.

- **Statement of Cash Flows**. How much money came in and went out during a specified time range?

Reports can only generate information about what you've entered in QuickBooks and exactly *where* it's been entered. So it's crucial that you follow standard accounting practice as you proceed through your daily workflow. We're always available to answer questions you have about QuickBooks' structure and your activity there. Your reports – and your critical business decisions – depend on it.

June 16 - Estimated Tax Payment Due

It's time to make your second quarter estimated tax installment payment for the 2014 tax year. Our tax system is a "pay-as-you-go" system. To facilitate that concept, the government has provided several means of assisting taxpayers in meeting the "pay-as-you-go" requirement. These include:

- Payroll withholding for employers;
- Pension withholding for retirees; and
- Estimated tax payments for self-employed individuals and those with other sources of income not covered by withholding.

When a taxpayer fails to prepay a safe harbor (minimum) amount, they can be subject to the underpayment penalty. This penalty is equal to the federal short-term rate plus 3 percentage points, and the penalty is computed on a quarter-by-quarter basis.

Federal tax law does provide ways to avoid the underpayment penalty. If the underpayment is less than the $1,000 de-minimis amount, no penalty is assessed. In addition, the law provides "safe harbor" prepayments. There are two safe harbors:

- The first safe harbor is based on the tax owed in the current year. If your payments equal or exceed 90% of what is owed in the current year, you can escape a penalty.

- The second safe harbor is based on the tax owed in the immediately preceding tax year. This safe harbor is generally 100% of the prior year's tax liability. However, for higher-income taxpayers whose AGI exceeds $150,000 ($75,000 for married taxpayers filing separately), the prior year's safe harbor is 110%.

Example: Suppose your tax for the year is $10,000 and your prepayments total $5,600. The result is that you owe an additional $4,400 on your tax return. To find out if you owe a penalty, see if you meet the first safe harbor exception. Since 90% of $10,000 is $9,000, your prepayments fell short of the mark. You can't avoid the penalty under this exception.

However, in the above example, the safe harbor may still apply. Assume your prior year's tax was $5,000. Since you prepaid $5,600, which is greater than the 110% of the prior year's tax (110% = $5,500), you qualify for this safe harbor and can escape the penalty.

This example underscores the importance of making sure your prepayments are adequate, especially if you have a large increase in income. This is common when there is a large gain from the sale of stocks, sale of property, when large bonuses are paid, when a taxpayer retires, etc. Timely payment of each required estimated tax installment is also a requirement to meet the safe harbor exception to the penalty. If you have questions regarding your safe harbor estimates, please call this office as soon as possible.

CAUTION: Some state de-minimis amounts and safe harbor estimate rules are different than those for the Federal estimates. Please call this office for particular state safe harbor rules.

June 30 - Taxpayers with Foreign Financial Interests

A U.S. citizen or resident, or a person doing business in the United States, who has a financial interest in or signature or other authority over any foreign financial accounts (bank, securities or other types of financial accounts), in a foreign country, is required to file Form FinCen 114 with the Department of the Treasury (not the IRS). The form must be filed with the Treasury Department no later than June 30, 2014 for 2013. No extension of time to file is permitted. Effective for 2013 reports, the form must be filed electronically; paper forms are no longer allowed. This filing requirement applies only if the aggregate value of these financial accounts exceeds $10,000 at any time during 2013. Contact our office for additional information and assistance filing the form.