

Monthly Tax and Accounting Newsletter

Gregg Harvey, CPA

About This Newsletter

This monthly Newsletter is a free service provided by Gregg Harvey, CPA. It is emailed every month to clients and to select members of the Rochester Regional Chamber of Commerce.

This Month's Contents:

This month's newsletter begins with an IRS re-print regarding selecting a tax preparer, some startup business ideas, energy credits, and recent IRS audit trends.

Tax Preparer Selection Guide

The following was published by the IRS:

If you will be paying someone to do your tax return, choose a tax preparer wisely. You are legally responsible for what's on your tax returns even if they are prepared by someone else. So, it's important to find a qualified tax professional.

The most reputable preparers will request to see your records and receipts and will ask you multiple questions to determine your total income and your qualifications for expenses, deductions, and other items. By doing so, they have your best interest in mind and are trying to help you avoid penalties, interest, or additional taxes that could result from later IRS contacts.

Most tax return preparers are professional, honest and provide excellent service to their clients; you can use the following tips to choose a

preparer who will offer the best service for their tax preparation needs.

Find out what the service fees are before the return is prepared. Avoid preparers who base their fee on a percentage of the amount of your refund or who claim they can obtain larger refunds than other preparers.

Only use a tax professional that signs your tax return and provides you with a copy for your records.

Avoid tax preparers that ask you to sign a blank tax form.

Choose a tax preparer that will be around to answer questions after the return has been filed.

Ask questions. Do you know anyone who has used the tax professional? Were they satisfied with the service they received?

Check to see if the preparer has any questionable history with the Better Business Bureau, the state's board of accountancy for CPAs or the state's bar association for attorneys. Find out if the preparer belongs to a professional organization that requires its members to pursue continuing education and also holds them accountable to a code of ethics.

Determine if the preparer's credentials meet your needs. Does your state have licensing or registration requirements for paid preparers? Is he or she an Enrolled Agent, Certified Public Accountant, or Attorney? If so, the preparer can represent taxpayers before the IRS on all matters – including audits, collections,

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and appeals. Other return preparers can represent taxpayers only in audits regarding a return signed as a preparer. Before you sign your tax return, review it and ask questions.

You can report suspected tax fraud and abusive tax preparers to the IRS on Form 3949-A, Information Referral or by sending a letter to Internal Revenue Service, Fresno, CA 93888.

Business Startup Ideas

Laid off in the recession and thinking of starting a business? Or just tired of working for someone else?

It's hard to start a business alone. Aspiring entrepreneurs must tackle an onslaught of questions like what and where to sell, how to effectively market their product or service, how to structure their business -- even whether going solo is the best option for them.

There's no shortage of advice and resources for fledgling entrepreneurs. In fact, the biggest problem is figuring out whom to trust and what resources will be most useful. That involves scouting out what's available and judging what is worth pursuing. Yes, it's time-consuming. But one good piece of advice or personal connection can make or break your chance at success.

Here's a look at some possible places for new entrepreneurs to turn.

Development Centers

Partially funded by the federal government, Small Business Development Centers provide free

counseling and help on a full range of issues such as business planning, financing and site location. There are about 900 SBDCs, spread across all 50 states.

The centers employ full-time business counselors, typically former entrepreneurs or M.B.A. graduates, who are well-networked and meet one-on-one with entrepreneurs or direct them to other services and professionals that can help.

Many SBDCs host courses, such as FastTrac, an entrepreneurship exploration and planning program developed by the Kauffman Foundation, an entrepreneurship research and advocacy organization. Some SBDCs partner with local business incubators that offer free and low-cost office space and resources.

To find the nearest SBDC, go to asbdc-us.org on the Web.

Score

Need a business mentor with very specific experience or expertise? You might try Score, a nonprofit group of volunteer business executives who counsel entrepreneurs; it's loosely affiliated with the Small Business Administration.

There are about 11,000 Score volunteers nationwide and 389 offices. The volunteers mentor entrepreneurs long-term or just help with a specific question or need. People who don't live near a Score chapter can pose questions to a counselor via email at Score.org.

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A search tool on the homepage lets users find counselors in their geographic area or with a specific area of expertise. You can read detailed descriptions of the counselors' professional backgrounds to pick one that suits your needs.

Campus Help

Universities are eager to give students real-world experience in a host of entrepreneurial exercises, including feasibility analysis, business planning and market research. They do so by providing free and low-cost help to local entrepreneurs.

Call Oakland University's entrepreneurship program or business school, or check their Web site, to see what services they offer local businesses.

Other Entrepreneurs

An often-overlooked resource for new entrepreneurs is other successful business owners in their fields. Someone looking to start a business should compile a list of the five "smartest" minds in the industry and try to meet with those people face-to-face.

These entrepreneurs -- assuming they're willing to meet with you -- can answer questions about the industry and what it's like running such a business.

Networking Groups

Starting a business can be a lonely experience -- if you do it alone. Meeting other entrepreneurs who are in your town, or have similar experiences and problems, can be both therapeutic and educational.

Pretty much any city or small town in the U.S. has a Chamber of Commerce or other business group that hosts networking events, seminars and other resources for entrepreneurs. You also can find groups of business owners in your area on Web sites like MeetUp.com.

More and more business networking is actually taking place online. Though you might not form as close a relationship that way, you are more likely to find people in your industry to share experiences with.

Social-networking sites for start-ups include Sta.rup.biz, StartupNation.com and Biznik.com. Other sites, such as MicroMentor.org, IdeaCrossing.org, PartnerUp.com and GoBigNetwork.com, can help match entrepreneurs with a business mentor, or even a potential investor

Energy Credits

Thinking about energy upgrades for your home in 2009? The good news is that the array of federal and state incentives to make your home more energy efficient has never been greater. The bad news, of course, is that strapped consumers in a weak economy may not have a lot of cash or home equity to use to leverage the credits.

The past year's volatility in energy prices turned a lot of attention to alternative sources of home heating and electricity. To help spur interest in alternative energy, Congress extended and expanded federal tax benefits in October,

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with several new provisions set to take effect Jan. 1.

With a recession under way, many companies marketing alternative-energy systems or home-efficiency improvements aren't seeing a rise in demand for their offerings.

But the extra tax savings make it worthwhile for energy-conscious homeowners to take a closer look, especially given continued uncertainty in natural-gas and heating-oil prices. Some states have sweetened the pot with rebates for energy-efficient heating and cooling systems. And with planning, taxpayers may be able to carry over some of the credits.

Solar Power

The most generous of the new provisions is a tax credit for installing home solar-power systems. Until now, the federal tax credit for residential solar systems was capped at \$2,000. Starting Jan. 1, homeowners can claim a full 30% of their installation costs for new residential solar-power systems, with no cost cap.

If a three-kilowatt rooftop system would cost in the neighborhood of \$20,000 a 30% tax credit on that amount would get the upfront cost down to \$14,000.

Savings in the Wind

Brand new in 2009 is a tax credit for small wind turbines for residential or business use. The small-wind credit is available this year for the first time since 1985, when it was phased out as part of a broader simplification of the tax code.

That credit isn't expected to have as large an impact on the market as the retooled residential solar credit -- it is limited to \$1,000 per kilowatt, with a maximum credit of \$4,000. The popular 10-kilowatt systems can cost from \$50,000 to \$60,000.

Due to local permit issues -- the towers for the small turbines are usually 60 feet or taller -- small wind power is still practical only for homes that sit on an acre or more of property. The American Wind Energy Association doesn't recommend installation where wind speeds average less than 10 miles per hour.

Offsetting the AMT

Both the solar and wind residential tax credits can be claimed against the alternative minimum tax, also a new feature in 2009. That will help taxpayers with a lot of itemized deductions and tax credits get the full value of the energy tax credits.

Some planning may be called for to ensure that you have enough tax liability to make full use of the residential tax credit for solar or small wind systems, or a similar credit for geothermal heat pumps. Credit amounts that aren't used in the year the system is installed may be carried forward to the following tax year.

The tax credit for geothermal heat pumps, which use heat stored in the ground to warm or cool a home, is capped at \$2,000.

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Improvements to help your home better trap heat or cool air in 2009 could qualify you for an energy efficiency tax credit of up to \$500. The tax credit is good for 10% of the cost of such activities as adding insulation, or replacing windows and external doors.

Newly installed high-efficiency furnaces, boilers, heat pumps and water heaters also are eligible for the 10% tax credit. But these credits, combined with any window and insulation credits, may not total more than \$500 for the same home.

You're out of luck, however, if you made such improvements in the 2008 tax year. When Congress renewed the tax credit, it did so only from Jan. 1, 2009 to Dec. 31, 2009.

Stove Credit

Congress added biomass stoves, such as those that burn wood pellets or corn for heat, as a new category of appliance eligible for the energy efficiency tax credit. Purchase of an eligible biomass stove in 2009 can qualify you for a \$300 tax credit -- which still counts toward the overall \$500 cap on home energy-efficiency improvements.

Wood-pellet and corn stoves are gaining popularity with consumers as a secondary heat source that can help save on gas or heating oil bills.

But a word of caution: The IRS is still in the process of penning guidelines for which specific models of wood-pellet and corn stoves will be eligible for the tax credit.

Once the IRS issues its regulation, manufacturers will be able to certify which of their products are eligible. The trade group will also post a list of qualifying stoves on its Web site, www.hpba.org.

More tax incentives could be on the way as renewable energy sources are expected to benefit from coming economic-stimulus legislation, and President Barack Obama's energy policies in general.

IRS Audit Trends

The Internal Revenue Service is auditing more upper-income Americans even as the agency has trimmed its overall audit rate.

IRS agents examined 1.01% of all individual income-tax returns last year, down slightly from 1.03% the prior year, officials said. This decline came after five consecutive annual increases, as the agency responded to congressional pressure to crack down harder on tax dodgers.

But at the same time, tax collectors have greatly intensified their scrutiny of upper-income Americans, especially those making \$200,000 or more. In the year ended Sept. 30, the IRS audited 130,751 returns of people in this group. That was up 16% from the prior year -- and up 49% from 2006.

Looking ahead, the overall audit rate this year is likely to remain about the same as last year. But officials are likely to continue their emphasis on high-income taxpayers. Your chances of getting audited are especially high if you work

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for yourself, file what's known as a Schedule C form for sole proprietors and deal in large amounts of cash. IRS research has shown especially large amounts of noncompliance among this group.

It really pays for taxpayers to be compulsive about record keeping. IRS auditors also are turning up the heat on Americans suspected of hiding taxable income abroad.

Many mundane factors can also trigger an audit. Among them: You've claimed unusually high deductions in relation to your income. (The IRS uses a computerized system to score returns based on the likelihood of inaccuracies.) Or the numbers on your return don't match what the IRS received separately from your employer or a financial institution. Or the IRS got a tip from an ex-business partner, ex-spouse or neighbor claiming you're cheating. Or you've invested in what the government considers an abusive tax shelter.

Less people got audited in 2008 than the year before, but that doesn't mean you might not be at risk.

Another possibility: The IRS may suspect you've deducted hefty losses from a side venture that's really a hobby, rather than a true business designed to make a profit. In one recent Tax Court case, the court rejected a Tennessee man's attempt to deduct tournament fishing expenses. The court said the record "contains insufficient evidence" to support the finding that the taxpayer was in this business with the primary objective of making a profit.

Officials also have said they're probing returns of numerous foreign athletes and foreign entertainers who spend time in the U.S. and receive large amounts of what the IRS considers to be taxable U.S. income -- such as payment for endorsements.

Several factors contributed to the unusual audit-rate decline in fiscal 2008, Ms. Stiff says. For one thing, the IRS now has fewer auditors. The number of revenue agents shrank to 12,599 as of Sept. 30, from 12,816 in 2007 and more than 14,600 in 1997.

Another factor: On top of handling the usual tax-filing-season madness last year, the IRS had to handle the gargantuan task of distributing economic-stimulus payments to taxpayers.

Auditors also are spending more time on big-dollar cases that typically involve greater degrees of complexity -- and that require far more time to dispose of than average tax battles involving much smaller sums.

Of course, the overall audit-rate decline is of little comfort to those whose returns do get selected. Audits can be complex, time-consuming and expensive. Whatever the case, don't take the ostrich approach and ignore IRS notices. The longer a taxpayer waits, the more penalties may add up.

Other IRS data released recently show:

The total number of individual income-tax audits rose slightly last year to 1,391,581, from 1,384,563 the prior year. The audit rate -- returns audited

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during the fiscal year as a percentage of those filed in the prior calendar year -- fell slightly as more returns were filed.

The total number of audits is still lower than in the late 1990s. More than 1.5 million individual income-tax returns were audited during fiscal 1997.

Most audits now are done by mail, rather than in face-to-face meetings with IRS personnel. About 1.1 million of the 1.4 million audits last year were "correspondence" audits. For 1997, the IRS reported 803,628 correspondence audits and 715,615 in-person audits.

Audits of returns of taxpayers with incomes of \$1 million and higher fell to 21,874 in fiscal 2008 from 23,200 the prior year. But that was up sharply from 14,187 in 2006. The IRS says it audited about 5.6% of returns in this category last year.

Enforcement revenue collected in fiscal 2008 fell to \$56.4 billion from \$59.2 billion the prior year. That was the first drop since the late 1990s (although the figure was the same -- \$33.8 billion -- in both fiscal 2000 and 2001). These figures include revenue not only from audits, but also from collections and document-matching activities

For More Information

For more information on anything covered in this Newsletter, please contact me. I provide tax, accounting, consulting, and other business services such as payroll and medical billing.

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