DOING YOUR OWN TAXES?

WHEN TO CALL A PRO

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It's the day of the Internet, Google, a computer on your desk, and an even better one in your pocket, Skype, Facetime, Apps, virtual currency and hybrid vehicles that never require a drop of gas. We can never get lost again, you can locate Jupiter and Saturn, you can watch your home from your office, never be late again, never lose anything. You can hold 1000 pictures of your cat in your hand, see what the weather will be by the hour, pay bills, and even manage health conditions with an app.

You can even prepare your taxes without the use of an accountant.

There is no doubt, we've come a long way from the nineties when there were very few people who knew tax and could fill out a paper IRS form properly. Now that technology is widely available, many can create and file their own returns in a matter of an hour and avoid any issues going down the road.

On the other hand, there are those that need their taxes done by a CPA, attorney, enrolled agent or other qualified professional. Many taxpayers are walking, talking targets of the IRS. They include the following laundry list of red-flag waiving people:

1. If you have over $200,000 in annual income, your audit risk is greater than 1% per year. Over a lifetime, the audit risk is over 50%. If you make over $500,000 per year, your audit risk is nearly 5% per year. Expect to get audited at some point and audited hard. Every taxpayer the IRS audits, they generally always take expenses away from the taxpayer.

2. No income at all stands out. How does a household get by on zero income?

3. If you make $5,000,000, plan on getting audited at some point once per nine years. However, at this income level, it would be my expectation that this person would have a professional staff on his or her payroll.

4. People who file estate tax returns above the exemption amount. This seems unexpected, but apparently the IRS wants to know whether the estate is trying to either squeeze in some extra stepped-up basis or alternatively trying to shave off some tax expenses.

5. People filing international returns for any form of income.

6. Those claiming unusual deductions are squarely in the IRS's cross hairs. No, there is no Free-Man Act, no slave reparations, and yes, the income tax has been ratified properly.

7. If you own a business and do or claim any of the following:

    a. Business Losses

    b. Rental Properties

    c. Loss Carryforwards

    d. Home Office Deduction

8. Those who donate large sums of money including non-cash contributions in the form of property. While it should seem as though the state and federal government benefit from donations, conservation easements and property, many taxpayers see a chance to really get one over on the taxing body. Be sure to have a qualified appraisal whenever you give items above $5000, especially real estate going into a conservation easement.

9. If you are paying Alimony, your exes' return had better match yours.

10. You file a Paper Return. Come on people we left this behind a long time ago!

11. You take the Earned Income Tax Credit. A lot of people take this who shouldn't. I've seen married couples file head of household, ouch!

12. Failed to include 1099s? While this is easy to do, it is an open path to an audit.

13. If your numbers are TOO perfect. If you made $1,200, 000 and you took exactly $7000 of medical expenses and $10,000 in mortgage payments? What are the chances for this to occur even?

14. Amend a return. What is more likely to bother a bee's nest? Kicking it once, or kicking it three times?

15. Have unreimbursed employee expenses. These expenses are easy to make up, so the IRS likes to see source documents. And please refer to #13 above. Don't buy $100 worth of gas and $400 to a government body, when the actual expenses are $101.38 and $398 respectively.

16. Deduct 100% of a business vehicle. Its 100% business use? You didn't even ever get a soda on your way past a fuel station?

17. Hobby Loss – don't go there.
18. Do business all in cash. Some businesses are nearly all cash. Most businesses now accept credit making hiding extra cash easier.
19. Own Bitcoin and perform currency transactions.
20. If a Third Party calls and gives the IRS an anonymous tip.
21. If you have a Sketchy Tax Preparer. Just think about this, your tax preparers name and identifying number are at the bottom of your tax return and everyone else's he or she has prepared by law. How long will the IRS cross link that sketchy business deduction that somebody you never heard of took with you and your tax return. Twenty years ago, it took days, now it takes seconds.
22. Or a loan to shareholder on your books…? You will attract attention and the first thing the IRS will do is reclassify it as equity and make you pay.

If you do all or some combination of the 22 items above, expect a letter from the IRS at some point in your future.

The long and short of it- If you fall into one of the above listed items, do not take a chance on dodging an audit and THEN having to hire a representative to represent you in front of a skilled IRS agent.

And One Huge Reason -

Change of Life: In practical application, a questionnaire will not catch everything – Did you have a baby? Buy a house? Get divorced? Or have income job related expenses? While these are not audit indicators, a change of life represents a change on your tax return that should happen as well. Not every change of life will change your tax return, but many do.

You would not swap out engines in your car, you would not rewire your house solely on your own. Taxes should be one item taken seriously. Even if you don't fall into one of these categories, be sure to at least have your accountant review your taxes. Don't risk having to talk to an auditor or IRS agent in a language you don't speak.

The Center files tax returns, creates business valuations, business succession plans, and many other tax related services. If you want or need one of these please call us at (618) 997-3436.