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Green Sheet Number 17 November 1, 2005

Our system of taxation relies on citizens "voluntarily" coming forward and filing documents each year attesting to their income and expenses. To promote compliance the U.S. government may examine these income tax returns and inquire of taxpayers as to the source of the information presented. We were reminded of this recently when we were contacted by a client who'd received an audit notice. If you've never experienced the unbridled joy of an IRS examination, you might want to read on.

## IRS AUDITS - LET'S GET REAL

The IRS does not audit 1 in every 3 tax returns. The IRS is not empowered to seize your first born. You will not go to prison because you underpaid your tax by \$10. Here's the skinny:

◆ **Birth of an IRS Audit.** Returns may be selected for audit due to differences between the return and documents such as W-2s and 1099s. . .returns may also be singled out because of what the IRS feels is a high potential for tax recovery. . .the IRS also occasionally audits large groups of returns (they're currently looking at S corporation returns) to develop data for choosing likely audit candidates in the future.

◆ **The Process.** Taxpayers are advised by letter of the examination. . .audits may be conducted by correspondence, at an IRS office, at a taxpayer's business or at the office of the taxpayer's representative. . .taxpayers may be represented by attorneys, CPAs, enrolled agents or actuaries. . .much of the actual audit involves taxpayers providing support for income and deductions claimed in the return.

◆ **Resolution and Beyond.** At conclusion of the audit the IRS agent will propose an adjustment resulting in a refund, an adjustment resulting in additional tax, or no change. . .taxpayers can appeal any finding to IRS Appeals and then the courts. . .the two most powerful IRS weapons are lien (a legal claim on taxpayer-owned property) and levy (the right to seize property). . .notice must be given before these tools are used.

Our advice to our clients: keep good records and, in the unlikely event you're contacted by the IRS or state of Oregon about your tax returns, take a deep breath and give us a call.

## YEAR END PLANNING

Tax planning at year end is generally an exercise in accelerating deductions or delaying recognition of taxable income, both in an effort to reduce taxable income. Some considerations:

◆ **Take the Deduction Now.** Political contributions can reduce state taxes by up to \$100. . .investment losses can lower taxable income by up to \$3,000. . .making charitable donations and prepaying state taxes often reduce taxable income. . .purchasing

business equipment might cut both income and self-employment taxes. . .partners and shareholders should consider taking reimbursement checks before year end (remember the IRS mileage rate increased from 40.5 to 48.5 cents per mile on Sept 1, 2005).

◆ **Saving for the Future.** Contributions to retirement plans or IRAs can reduce taxes. . .a contribution of \$2,000 to the Oregon Tuition Savings plan saves up to \$180 of state tax.

◆ **Sometimes, Waiting Pays.** Purchasing a hybrid vehicle might be put off until January 1, 2006 when the old deduction becomes a tax credit. . .new credits for energy conservation around the house also take effect January 1.

We'll be contacting many of you in the next several weeks regarding these issues. Please be sure to call us if you have any questions or want to schedule a year end tax planning meeting.

#### **NEWS FLASH - SPOTLIGHT ON TAX & ACCOUNTING**

Headlines about Brad and Jen may attract more readers but we found the following news items interesting and/or amusing.

◆ **H&R Whoops.** We all make itsy-bitsy mistakes. . .H&R Block told the SEC this year it had overstated net income for 2003 and 2004 by more than \$91 million. . .a large part of the error was Block's estimate of its own income taxes.

◆ **Tax Overboard!** The Wall Street Journal reported last month that quarterly payments from 30,000 taxpayers were dumped into San Francisco Bay. . .the payments spilled from a delivery truck involved in a traffic accident on a bridge. . .the IRS said it would waive interest and penalties.

◆ **Gimme Shelter?** 19 people associated with accounting behemoth KPMG face trial. . .charges relate to fraudulent tax shelters sold to wealthy clients who were able to avoid billions in taxes. . .the firm has already paid a \$456 million fine.

◆ **Survival Skills.** Richard Hatch, the first winner on the "Survivor" TV series, was indicted in September for failing to pay income tax on his winnings.

#### **CLIENT CORNER - Credit Concepts, Inc.**

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For nearly a decade Credit Concepts has been helping Pacific Northwest residents buy cars. Founded by Tom Palmer and Gene Albert, the company makes direct consumer loans and buys installment sales contracts from automobile dealers. With the opening of a Seattle office early in 2005, Credit Concepts now provides its services to dealers from Medford to Seattle. "Our customers are very important to us. And Gene and I have an ongoing commitment to provide our employees with a great work environment and the opportunity to grow with the company," says Tom Palmer.

As we approach the holidays everyone here would again like to thank all of you for the chance to help you with your tax and accounting needs. Best wishes to you all for a safe and joyous holiday season and 2006!