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May you live in interesting times. Whether or not this is truly an ancient Chinese curse is debatable, but it certainly describes the state of income tax law in our own fair land. Are tax rates going up in 60 days? Will the estate tax return? Will investment income continue to get favorable tax treatment? Will the myriad provisions of recent health care legislation be reversed? Then again, maybe not all of you find these questions as riveting as we do. So Go Ducks! And don't forget to vote!

### LEGISLATIVE UPDATE

Congress continues to tinker with the tax code, even as it defers debate on critical tax issues. . .

◆ **Bush Tax Cuts:** We reviewed these last time in Green Sheet #36. . .absent Congressional action, the Bush tax cuts expire at midnight on December 31. . .all federal individual tax brackets would increase. . .most long term capital gains would be taxed at 20% rather than the current 15% rate. . .dividends would be taxed at higher rates. . .the child income tax credit would drop to \$500. . .back comes the estate tax. . .against a backdrop of our jobless recovery, allowing all this to occur would appear to be political suicide. . .look for most or all of the cuts to be restored after the election.

◆ **Meanwhile, Back in our Capital:** On September 27, Obama signed the Small Business Jobs Act of 2010 which included several tax provisions. . .bonus depreciation (immediate expensing of half the cost of certain assets) is extended for 2010. . .immediate expensing of the cost of most long-term assets is allowed up to \$500,000. . .up to \$250,000 of leasehold improvements and restaurant property, not previously eligible, may now be immediately expensed. . .relaxed first-year depreciation limits for passenger vehicles are extended for 2010. . .the deduction for startup expenses is increased to \$10,000. . .landlords will be subject to 1099 reporting requirements.

◆ **And Right Down the Hall:** The state legislature has sidetracked plans by the Oregon Department of Revenue to discharge more than 100 examiners and collections agents. . .ODR had also planned to close nine field offices, including the Eugene office (just down the hall from our own office). . .said House Speaker Dave Hunt, "It makes no sense to lay off somebody who costs \$5 but brings back \$15 in revenue collections."

### And Speaking of Tax Examiners:

Tax law is not painted in flat black and white but rather it is textured in shades of gray. Reasonable people can disagree not just on the facts central to a tax dispute, but in how the law should be applied to those facts. Two experiences in our office might help illustrate.

♦ **Tommy Taxpayer and the IRS:** Tommy (surprise! that's not his real name) received his greetings from the IRS Eugene office in January. . .his return was selected for audit by a national program. . .the exam was long and drawn out, with the examiner visiting our office three or four separate times. . .after successfully defending dozens of deductions, we received an exam report proposing three adjustments. . .two were arguable but not trivial. . .the final disputed item was significant; unfortunately, Tommy's recordkeeping was not perfect and the auditor refused to accept anything beyond what could be supported by actual receipts. . .a lengthy phone call to the examiner's supervisor in the Portland office got us a favorable compromise.

♦ **Tricia Taxpayer and the ODR:** Tricia (no relation to Tommy) attracted the attention of the Oregon Department of Revenue for taking large deductions in two areas: donations and employee expenses. . .we've scheduled our first meeting with the auditor next month. . .it's likely that substantiating deductions will again be a pivotal issue, as recordkeeping requirements in both these areas are particularly strict.

♦ **Generally Speaking:** Bear in mind that only about one percent of individual tax returns are audited by the IRS. . .if you're one of the unfortunate few, resist the temptation to play outraged defendant; hire a pro to make your case. . .both IRS and ODR allow CPAs to represent taxpayers in these matters. . .keep records supporting the items on your tax returns for at least four years.

#### Other Tax Matters

In other breaking tax news. . .

♦ **Tax Scams:** One of our clients passed along a warning of a fraudulent e mail currently circulating. . .the memo purports to be from the IRS EFTPS (Electronic Federal Tax Payment System) program. . .clicking on the phony link in the body of the text could presumably result in revealing confidential bank account info. . .IRS never uses e mail for income tax return communications. . .beware also of hucksters claiming to offer "Stimulus Rebates" or "Unclaimed Refunds". . .finally please run, don't walk, the next time someone lets you know that income taxes are actually unconstitutional.

♦ **Tax Reform? How? When?** We're not expecting any really, really big reform any time soon, but we thought the ideas in the most recent edition of Accounting Today had merit. . .eliminate the alternative minimum tax. . .increase the standard deduction so fewer taxpayers have to wrestle with calculating their itemized deductions. . .consolidate and simplify the numerous provisions in the area of retirement savings. . .ditto for education incentives.

As most of you begin thinking of turkeys and holidays and family, we at Larry A Jaffe, P.C., of course, turn our thoughts to tax planning. We look forward to seeing many of you in the coming weeks to talk about year-end tax strategies and estimates of 2011 taxes.

To all of our clients, our very best to you and yours for a safe and happy holiday season!