

Avoid the IRS Hit List - 2009!

Here are three strategies to avoid the Hit List.

Strategy #1: Be extra careful with your tax return prep if your business has a loss and you are in one of these audit sensitive businesses:

Fishing, Farming, Craft Sales, Dog Breeding, Gambling, Direct Sales, Entertainers, Horse Racing, Motocross Racing, Bowling, Yacht Charter, Fishing, Photography, Airplane Charter, Horse Breeding, Auto Racing, Stamp Collecting, Artists, Bowling, Writing and Rentals.

If your business does fall within one of these categories, be prepared with documentation that substantiates that you really are in business to generate a profit.

Specifically, the IRS agent is going to be looking for:

- Large, unusual and questionable items,
- Missing schedules,
- Inconsistencies between different years, and
- Audit potential.

In other words, if you or someone else prepares your return and you don't properly report, use the wrong schedules or aren't consistent with accounting methods, you're going to get audited.

Count on it.

Strategy #2: Independent Contractor vs. Employee status.

This is going to end up being the hot audit subject over the next few years, especially if the 8% additional tax on employees for small business passes. This is the surtax that is currently being debated. It would call for small businesses with payroll over a certain amount and who do not provide health care to pay an extra 8% in taxes.

How do you, a cash-strapped small business owner, avoid that tax plus all the payroll taxes and other benefit claims? Don't hire employees. Contract with independent contractors.

But there is a whole lot more needed than just claiming a person is an Independent Contractor. You need an agreement. Your relationship with them can't be like an employer/employee one.

Get ready for the IRS to challenge every independent contractor relationship they see. Why? There are thousands and thousands of dollars in excess tax here.

Protect yourself! Make sure you have an independent contractor agreement which each one your business hires. This easy to use template can save you hours of headaches.

Plus, you'll get over 60 minutes of instruction on what you need to do to win this argument! Don't take a chance on this one. It's never been more important to make sure you'll win this argument.

Strategy #3: Real Estate Professional Status.

We first started talking about this issue with real estate professional a year ago. Since then, the IRS has been winning the court battles right and left.

If you have real estate losses and you're not a real estate professional, you run the risk of not being able to take any of the real estate deductions.

There are two big tests for getting this deduction. First, you need to be a legitimate real estate professional. That means you spend over 750 hours in active real estate activities and more time in real estate activities and more time in those activities than any other trade or business. Plus you must have active participation in the properties. There are two separate tests here and unfortunately, many people get that one wrong.

The economic recession is hitting state and federal government even worse then it's hitting you. And the government is going to be looking to you to fix it.

If any of the three strategies are things you need to consider, then please don't wait. The IRS notices will soon be flooding the mail system. This is one letter you don't want.

Warmly,

Diane Kennedy
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