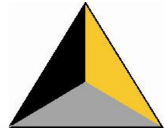


MOCERI & COMPANY, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

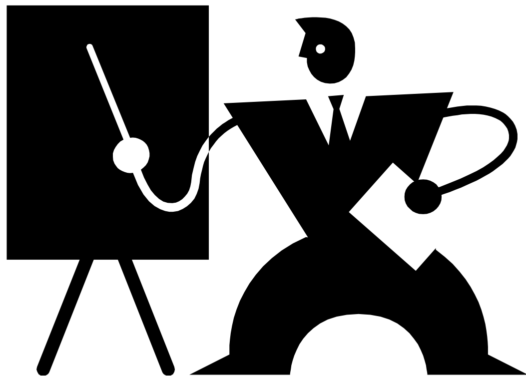
Tax Alerts

Volume 4, Issue 8 August, 2012

Seminar – Retirement Survival Basics

We will be hosting a seminar, "Retirement Survival Basics – Top Ten Mistakes to Avoid", on Wednesday, September 19th, 2012. Guest speaker Gary Nustad, CLF, executive director of strategic development for Michigan Financial will provide some thought provoking information on retirement, and our own Mike Kramer will be speaking on the tax issues that will affect everyone in 2012. The seminar will be held at Ike's Restaurant in Sterling Heights at 6pm, registration begins at 5:30 pm.

Please contact Lynne Diederich at (586) 254-2010 or via email at ldiederich@moceri-cpa.net if you are interested in attending or would like additional information.



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Audit Red Flags

Though the IRS statistically audits only about 1% of individual tax returns annually, some items on your tax return can increase the risk of being subjected to an audit. There is no guaranteed way to avoid an IRS audit; however, you should be aware of items that may, potentially, attract the attention of the IRS

1. **The higher your income, the higher your chances of being audited.** The odds of an audit increase when you make more than $200,000 per year. The IRS audits about 3.93% of returns at this income level. When you report $1 million or more your risk increases to about 1 in 8.

2. **Failure to report income**. The IRS receives copies of all 1099s and W2s and matches them to filed tax returns. If you receive a tax form and do not include the income on your tax return you will hear from the IRS.

3. **Charitable Contributions**. The IRS computes the average charitable contributions for different income levels, so if you take a charitable contribution deduction that exceeds the average for your income a red flag is raised. Similarly, if you take non-cash contribution deductions over $500 and do not file Form 8283 the IRS may get suspicious. This does not mean that if you are legitimately entitled to a deduction that you should not take it because of the audit risk, rather you should make sure to keep all your supporting documents, including receipts and appraisals and abide by all documentation rules.

4. **Writing off a home office**. Taxpayers who qualify for the home office deduction are allowed to deduct a percentage of their house expenses, things like rent, utilities, and insurance. Sounds like a great deal, right? It is if you qualify. The reason the IRS targets returns with the home office deduction is it is one of the most abused deductions. To qualify for the home office deduction you must use the space *exclusively and regularly* as your principal place of business. That means if you use your kitchen table, guest bedroom, or family room to remote into the office you do not qualify for the deduction. It also means that you must base the percentage of expenses on the square footage of the home used exclusively for your trade or business.

5. **Rental Losses.** Passive loss rules prevent deductions of rental losses in excess of passive income. However, there are exceptions to the passive loss rules. If you materially participate in the rental activity on a regular continuous and substantial basis during the year, you can deduct up to $25,000 of rental losses, subject to a phase out that begins when your adjusted gross income (AGI) exceeds $100,000 and is eliminated when your AGI reaches $150,000. If you spend more than 50% of your working hours (at least 750 hours) each year materially participating in a real estate activities (developers, brokers, landlords, etc.) you can be classified as a real estate professional, and deduct 100% of rental losses. Because of the potential for abuse the IRS is more likely to target returns with rental losses especially if you claim to be a real estate professional but your day job has nothing to do with real estate.

6. **Deducting Business Meals, Travel and Entertainment.** Much like deductions for charitable contributions, the IRS has determined an average write off for Schedule C businesses for business meals, travel, and entertainment. Taking above average deductions may cause the IRS to start looking for personal expenses or claims that were not properly substantiated. Remember that you must keep detailed records to document each expense including the amount, the location, who attended, the business purpose of the event, and the nature of the business discussion ,

7. **Writing off Losses from a Hobby**. The rules say you must report any income you earn from a hobby, but the losses you generate are only deductible up to the amount of the income. Many taxpayers are tempted to call their hobby a business, and file a Schedule C. Thereby, getting the benefit of 100% of the loss. However, your risk in doing this is attracting the attention of the IRS especially if you have wage income in addition to the Schedule C loss.

8. **Claiming 100% business use of a vehicle**. The IRS knows it is extremely rare for anyone to use a vehicle 100% of the time for business. This is especially true when the owner does not have another vehicle. Make sure to maintain detailed mileage logs and detail the business purpose for every trip, to avoid having the IRS disallow deductions.

Remember, if you are entitled to a deduction you should by all means take it. The only reason to fear an IRS audit, is if you are doing something dishonest. If any of the above situations apply to you, please call our office to discuss.♦

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QuickBooks Corner- Intuit Data Protect Service

Intuit's Data Protect service will automatically perform a daily back-up of your QuickBooks 2011 (or later) data to a web based storage location. The service can also back-up all of your computer data, and it will run even if the data file is open. Each daily back-up is saved for 45 days to give you plenty of time should you need to restore previous data. The service is priced from $4.95 to $9.95 monthly. For more information visit tinyurl.com/4yy9z9y.♦