Rick LeNoble CPA, PA.

They didn't need an accountant either!!

Note: The following cases are based on actual events, however the situations may have been modified slightly to maintain client confidentiality. Client's permission to use this information was received.

Case # 1

Client Divorces IRS

Facts:
After a bitter divorce, Client # 1, who always prepared his own personal taxes, decides to quit filing for eight years. The IRS who has W-2's for him, files for him, as single, with a standard deduction. With penalties and interest attached, Client # 1 gets a tax bill after getting credit for withholdings, for $ 78,000. The IRS levies his wages, threatens to levy his new wife's wages as well. The IRS establishes a payment plan that doesn't cover the interest accumulating. Client # 1 is resigned to take this debt to his grave.

Results:
After lengthy negotiations with the IRS, the levy is removed, most of the penalties and interest are abated, and taxpayer receives refunds totaling $ 9,750. Had he come to me sooner, the refunds would have exceeded $ 18,000 but the Statute of Limitations had run out on the remaining payments he made. The IRS gets to keep the money!

Case # 2

My Wife Keeps The Books

Facts:
A new corporate client who owns three corporations saves money by having his wife, a trained bookkeeper prepare his financial statements and tax returns for three years. In year four, Client # 2 engages me to "look over" the four years statements and related tax returns.

Results:
Because he was originally organized incorrectly, he has over $ 100,000 in losses suspended in his corporation that he could have otherwise deducted individually. Also on his individual returns, she missed allowable deductions for commercial property he owned and leased to his corporation. I filed amended returns and the taxpayer received refunds in excess of $ 14,000.

Case # 3

We're Just Starting Up, We'll Do It Ourselves This Year

Facts:
Two engineers start a consulting business and get a lawyer to incorporate them. After eight months in business they decide to visit an accountant to see if they are on the right track. By then these engineers had derailed the train. They were incorporated in a manner that did not consider tax implication. As a result, they will be taxed at a flat 36% Personal Service Corporation Rate, if they have a profit. If they have a loss, the loss can not be used to offset personal income because the attorney didn't set it up that way. In addition, they had failed to register with any taxing authorities, and they were paying wages. They have also failed to file estimated corporate tax payments.

Results:
As yet undetermined, but in addition to paying taxes at a maximum rate, these taxpayers will be subject to several thousand dollars in penalties from numerous tax authorities.

Case # 4

I Took Accounting Courses In College, I Just Need My Taxes Done

Facts:
A contractor who knew more than the average person about accounting used a well-known software package to keep his books. He brought me a year-end financial statement but admitted that because his business took up so much of his time, there might be a few errors or omissions in the statement.

Results:
After re-compiling his books, we found that he had understated his income by $ 21,000, understated his expenses by $ 34,000, and overpaid the IRS by $ 3,000 in error. His refunds totaled $ 7,800, after I made the corrections and properly filed the returns.

Case # 5

But My Stockbroker Said ……

Facts:
Two brothers and a sister contacted me after being told that a certain IRA distribution each of them had received was subject to a 10% premature withdrawal penalty. Each taxpayer had received $ 100,000.

Results:
After reviewing the circumstances surrounding the distribution, I determined that the taxpayers fell under the exception, and would not be subject to the 10% penalty. This resulted in a $ 30,000 savings to the family. They don't use that stockbroker anymore.

Case # 6

Our Attorney Incorporated Us, We Thought We Were Set Until Year End

Facts:
Taxpayers were incorporated in mid 1998. They were under the impression that everything required for them to operate had been cared for. They had no way of knowing that many attorneys care for the legal aspects of establishing a corporation and leave the financial aspects of establishing the business to the client's CPA. The client's were also under the impression that they were to be taxed as an S Corporation.

Results:
The number of shares authorized was not consistent with their immediate plans to add additional shareholders. They were required to amend the Articles of Incorporation, at an additional cost to themselves. They could not open a bank account in the corporate name because they didn't have a federal identification number. They had not properly registered to do business within the state, and were in violation of state law. The election to be taxed as an S Corporation had not been filed, and the time had passed for the election to be effective for their first year of operation. Consequently, when the corporation incurred a loss of over $ 10,000 in their start up year it was not passed through to the shareholders personally as they had planned for. The shareholders incurred an additional tax of approximately, plus underpayment penalties. Had these clients come to me either prior to incorporating or immediately thereafter, we could have saved them these additional taxes and penalties. As it ended up I cared for everything else in a single one-hour meeting.

Case # 7

We Have A Software Package To Keep The Books and Don't Need An Accountant Until Year-End To Prepare Our Returns

Facts:
Taxpayer had an S Corporation and purchased a popular software program, which could record their transactions and generate financial statements. The taxpayers thought they could save money by doing the books themselves.

Results:
The software program used a generic chart of accounts, which the taxpayers used. They added accounts they felt were appropriate. However the accounting system was set up incorrectly. They were not recognizing income or expenses at the appropriate time. They had treated the acquisition of depreciable assets improperly, and their payroll taxes had been improperly recorded and filed incorrectly with the government. Their financial statements reflected a loss, when they actually had a profit. They incurred a substantial Underpayment of Estimated Tax Penalty, an amount greater than any fees I would have charged to set up their software package correctly and periodically review their data.

Case # 8
<u>We Just Have A Few Questions</u>

Facts:
Three existing personal tax return clients decide to open a small business and call me because I have prepared their personal returns for several years. They are totally unaware that I provide business financial services and consulting, and they just want me to recommend an accountant.

Results:
After informing them that we do in fact care for such matters they came in for their free initial consultation. Based on the facts presented I advised them to incorporate as an S Corporation. They had been quoted a fee of $ 700 to incorporate by an attorney over the phone. They had also been quoted a premium of $ 800 for business insurance. I explained that I do incorporations in addition to having insurance brokerage licenses. I charge $ 200 to do incorporation, and I was able to find them insurance at a cost of $500. Immediately the clients saved $ 800. With my up front tax planning we have put them in a position to save many times that amount in tax savings the first year. They are now business clients taking advantage of our Small Business Package.

Case # 9
<u>My Friends Help Me With My Taxes, But Now I Have A Deficiency Notice</u>

Facts:
A taxpayer who used a friend (an accountant in industry) to prepare his personal taxes had purchased and sold residential rental property under the provisions of the Like-Kind Exchange rules of the Internal Revenue Code. He and his friend had properly reported the transaction on his federal return, but neglected to report it on an out of state tax return where the old property was located. The states share information with the IRS, and the taxpayer received a tax deficiency notice including penalties and interest for about $ 8,600. The accountant advised his friend to pay it.

Results:
Before paying such a large amount, the taxpayer thought he might just run it by a CPA. He contacted my office. After reviewing the federal return for accuracy and computing the amount of tax shown on the deficiency notice, I concluded that the state had erred in their calculation. I re-computed the state tax due, based on the actual figures, added the penalties and interest, and concluded that the taxpayer owed $ 850, not $ 8,600. The state accepted our computations and the taxpayer saved $ 7,750. Although they remain good friends, I have prepared his income tax returns ever since.

In each of the above cases, the taxpayers were not aware of the solutions that were available to them. Most taxpayers that prepare their own returns, or do their own accounting, file the information under the impression that they are paying the lowest tax allowable under the law. The IRS is not in the habit of calling taxpayers and telling them, that they missed something. However the IRS, as well as all taxing authorities will assess penalties and interest to the letter the law allows.

Sound familiar? If you have a tax issue, or are starting a new business, don't wait until you receive that ominous letter from the government, or bad news at year-end that you coulda, or shoulda done this or that to save yourselves substantial dollars with the proper up-front planning and organizational structure, call me today at (954) 345-0510 or E-Mail me at rickl@ricklenoblecpa.com, and get things off on the right foot.