

*"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"*

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## A Message from Our President

*By Heather N. Vinas*

To Our Esteemed Clients & Colleagues:

It is that time of year again; summertime. It is the time to clean up that BBQ grill, bring out the lawn furniture, and start planning for those gatherings with your family and friends. We all push through the grueling challenges of the year to be able to get out in the nice weather and enjoy ourselves in the summer. It is also a good time to review your finances from the past six months and the remaining six left in the year. Right now is a good time to check with your accountant on where you currently are, what is going on with your life both personally and professionally and make changes, if any are to be made.

We often anticipate the summer months getting here that when they are finally upon us, it is easy to overlook timelines for our finances. It is one of those things that if left unattended could have a very negative impact at the end of the year that leaves you scrambling. Don't let that happen to you. Stay on top this year, and give us a call to review your current financial situation. I am a big advocate for staying ahead and being prepared, especially during these challenging times. My father always told me it is better to be safe than sorry.

Have a safe, blessed and joyful summer, and a Happy Fourth of July!

With best regards,

*Heather N. Vinas*

## 12 Tips for Staying Cool This Summer

*By Michael Murray, ABC News*

- Be aware of the heat. Pay attention to it and modify your activities appropriately.
- Pay attention to your hydration status, and be sure to drink plenty of fluids.
- Try to stay in relatively cool areas, even when outside. Many public places such as libraries, shopping malls and movie theatres are air conditioned.
- Avoid hot enclosed places, such as cars. Never leave children unattended in a car parked in the sun.
- Use a fan, if available.
- Stay on the lowest floor of your building.
- Eat well-balanced, light and regular meals.
- Wear loose-fitting, lightweight and light-colored clothing.
- Cover windows that receive a significant amount of sun with drapes or shades to help keep your house cool.
- Weather stripping and proper insulation will keep cool air inside your home.
- Cool beverages are good for cooling down the body, while alcoholic drinks can impair the body's ability to regulate its temperature.

## 8 Signs of Heat Overexposure

- Heavy sweating, but if heat stroke sets in, the body can no longer compensate and stops sweating.
- Pale skin
- Muscle cramps
- Feeling tired and weak
- Altered mental status (confusion or disorientation)
- Headache
- Becoming semi-conscious, or passing out.
- Nausea or vomiting

## Sunset of Tax Benefits Leaves Uncertainty

By Michael Cohn, *Accounting Today*

Uncertainty lingers over whether Congress will extend all or some of the tax cuts and incentives set to expire at the end of the year. CCH has issued a new Tax Briefing looking at the tax benefits scheduled to expire this year and what taxpayers should know when planning for next year.

So far, no resolution is in sight and answers may not come until after the November elections. Two years ago, President Obama and Republican lawmakers agreed to generally extend the Bush-era tax cuts along with the so-called tax extenders for two years in the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010. But a longer-term extension comes with a high price tag. The Congressional Budget Office has estimated that extending all of the "Bush-era" tax cuts would cost \$2.84 trillion over 10 years.

"The decision is more complicated this time around because of mandatory reductions in federal spending that were introduced in the Budget Control Act of 2011," said CCH principal federal tax analyst Mark Luscombe, JD, LLM, CPA. "When you combine all that with a still-recovering economy and a Congress that has difficulty seeing eye-to-eye on tax legislation, it's easy to see why people are using terms such as 'fiscal cliff' and 'taxmageddon' to describe what the impact could be from the expiration of numerous tax breaks, as well as implementation of automatic spending cuts."

Tax topics covered in the briefing include individual income tax rates, alternative minimum tax, marriage penalty relief, capital gains and qualified dividends tax rates, child and dependent care tax credits, education-related tax incentives, estate and gift taxes, and more.

To access the CCH Tax Briefing, [click here](#) or visit [www.CCHGroup.com/Legislation](http://www.CCHGroup.com/Legislation).



## 12 IRS Audit Flags for 2012

By Jill Schlesinger, *CBS Money Watch*

"IRS audit" is one of most-feared phrases in the English language. While the chance of being audited is pretty low (about one in 100), the chance of being touched by the IRS is on the rise, according to personal finance writer Kathy Kristof. You may be one of the unlucky two percent of taxpayers who are subjected to random audits, but most IRS inquiries arise for specific reasons. Here are the 12 audit flags for 2012. Remember, many of these are legitimate -- just make sure that you have all supporting documentation in case the IRS calls.

- 1. Not reporting income:** Whoops -- forgot about that consulting gig? The IRS receives copies of all 1099s and W-2s you receive, so make sure you report all income on your return. If you receive an incorrect 1099, talk to the issuer and make sure that a corrected form is filed with the IRS.
- 2. A large change in income:** The IRS computers have all of your historic data, so when there's a big change from the previous year, it can trigger a red flag.
- 3. Being self-employed:** Self-employed workers take note: The IRS doesn't trust you, because so many of you are trying to game the system by under-reporting income and overstating deductions. This class of taxpayer must be well-prepared to defend all deductions and credits.
- 4. Taking higher-than-average deductions:** If deductions on your return are disproportionately large compared with your income, your return may get flagged. To defend yourself, make sure you have documentation.
- 5. Large charitable contributions:** I know that you'd like to have Mitt Romney's tax return, but claiming big contributions like Mitt will flag your return. Again, documentation will save you and don't forget to file form 8283 for donations over \$500.

**6. Small business losses:** The IRS has plenty of experience with taxpayers who try to claim losses on a small business, when the activity is really a hobby. What's the difference? A business must be entered into and conducted with the reasonable expectation of making a profit.

**7. Claiming rental losses:** With the real estate market as it is, many homeowners are turning into reluctant landlords. Before you start claiming rental losses, you'll need to check out IRS passive loss rules and the two major exceptions for people who make less than \$150,000 and real estate professionals.

**8. A home office deduction:** Are you sitting in your kitchen, checking your work e-mail? Well, that's not a home office, according to the IRS. To qualify for this widely abused deduction, the room must be for work-only. If you really do maintain a home office, you can deduct a percentage of your rent, real estate taxes, utilities, phone bills, insurance and other costs.

**9. Large business meal and entertainment deductions:** Wouldn't it be nice to live in a "Mad Men" kind of world, where every meal and trip could be easily classified as a tax deduction? Before you channel your inner Don Draper, remember that big deductions for meals, travel and entertainment are big-time audit flags. Keep detailed records that document the amount, the place, the people attending, the business purpose and the nature of the discussion or meeting.

**10. 100% business use of a vehicle:** Claiming 100% business use of an automobile is not just a red flag, it's a red flag on steroids, because very few people use a car exclusively for business. No matter what percentage you're deducting, keep detailed mileage logs and precise calendar entries for the purpose of every road trip.

Please see *IRS Audit Flags* on page 3

**IRS Audit Flags from page 2**

**11. Large casualty losses:** Did Hurricane Irene leave a wake of destruction in your life? If you suffered a significant casualty loss last year, read what the IRS has to say about casualty, disaster, and theft losses before you file.

**12. Math errors:** If you goof on your math, the IRS is going to get in your face, so double and triple-check your numbers before you file.

## Eight Facts to Know if You Receive an IRS Letter or Notice

IRS Tax Tip 2012-73, April 16, 2012

The IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many of these letters and notices can be dealt with simply, without having to call or visit an IRS office.

Here are eight things to know about IRS notices and letters.

- 1.) There are a number of reasons why the IRS might send you a notice. Notices may request payment, notify you of account changes, or request additional information. A notice normally covers a very specific issue about your account or tax return.
- 2.) Each letter and notice offers specific instructions on what action you need to take.
- 3.) If you receive a correction notice, you should review the correspondence and compare it with the information on your return.



### ~ THE IRS CORNER ~

- 4.) If you agree with the correction to your account, then usually no reply is necessary unless a payment is due or the notice directs otherwise.
- 5.) If you do not agree with the correction the IRS made, it is important to respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left of the notice. Allow at least 30 days for a response.
- 6.) Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right of the notice. Have a copy of your tax return and the correspondence available when you call to help the IRS respond to your inquiry.
- 7.) It's important to keep copies of any correspondence with your records.
- 8.) IRS notices and letters are sent by mail. The IRS does not correspond by email about taxpayer accounts or tax returns.

For more information about IRS notices and bills, see Publication 594, The IRS Collection Process. Information about penalties and interest is available in Publication 17, Your Federal Income Tax (For Individuals).

Both publications are available at [www.irs.gov](http://www.irs.gov)



## Missed Tax Filing Deadline

Special Edition Tax Tip 2012-06, April 19, 2012

- **Don't panic but file as soon as possible.** If you owe money the quicker you file your return, the less penalties and interest you will have to pay. Even if you have to mail us your return, the sooner we receive it, the better.
- **E-file is still your best option.** [IRS e-file](#) programs are available for most taxpayers through the extension deadline – October 15, 2012.
- **Free File is still available.** Check out [IRS Free File](#). Taxpayers whose income is \$57,000 or less will qualify to file their return for free through IRS Free File. For people who make more than \$57,000 and who are comfortable preparing their own tax return, the IRS offers Free File Fillable Forms. There is no software assistance with Free File Fillable Forms, but it does the basic math calculations for you.
- **Pay as much as you are able.** Taxpayers who owe tax should pay as much as they can when they file their tax return, even if it isn't the total amount due, and then apply for an installment agreement to pay the remaining balance.
- **Installment Agreements are available.** Request a payment agreement with the IRS. File [Form 9465](#), Installment Agreement Request or apply online using the IRS [Online Payment Agreement Application](#).
- **Penalties and interest may be due.** Taxpayers who missed the filing deadline may be charged a penalty for filing after the due date. Filing as soon as possible will keep this penalty to a minimum. And, taxpayers who did not pay their entire tax bill by the due date may be charged a late payment penalty. The best way to keep this penalty to a minimum is to pay as much as possible, as soon as possible.

Please see *Missed Tax Filing Deadline* on page 4

**Missed Tax Filing Deadline from page 3**

- Although it cannot waive interest charges, the IRS will consider reductions in these penalties if you can establish a reasonable cause for the late filing and payment. Information about penalties and interest can be found at [Avoiding Penalties and the Tax Gap](#).
- **Refunds may be waiting.** Taxpayers should file as soon as possible to get their refunds. Even if your income is below the normal filing requirement, you may be entitled to a refund of taxes that were withheld from your wages, quarterly estimated payments or other special credits. You will not be charged any penalties or interest for filing after the due date, but if your return is not filed within three years you could forfeit your right to the refund.



Department of the Treasury  
Internal Revenue Service

## Start Planning Now for Next Year's Tax Return

The tax deadline may have just passed but planning for next year can start now. The IRS reminds taxpayers that being organized and planning ahead can save time, money and headaches in 2013. Here are eight things you can do now to make next April 15 easier.

- 1. Adjust your withholding** Why wait another year for a big refund? Now is a good time to review your withholding and make adjustments for next year, especially if you'd prefer more money in each paycheck this year. If you owed at tax time, perhaps you'd like next year's tax payment to be smaller. Use IRS's Withholding Calculator at [www.irs.gov](http://www.irs.gov) or Publication 919, How Do I Adjust My Tax Withholding?
- 2. Store your return in a safe place** Put your 2011 tax return and supporting documents somewhere secure so you'll know exactly where to find them if you receive an IRS notice and need to refer to your return. If it is easy to find, you can also use it as a helpful guide for next year's return.
- 3. Organize your recordkeeping** Establish a central location where everyone in your household can put tax-related records all year long. Anything from a shoebox to a file cabinet works. Just be consistent to avoid a scramble for misplaced mileage logs or charity receipts come tax time.
- 4. Review your paycheck** Make sure your employer is properly withholding and reporting retirement account contributions, health insurance payments, charitable payroll deductions and other items. These payroll adjustments can make a big difference on your bottom line. Fixing an error in your paycheck now gets you back on track before it becomes a huge hassle.
- 5. Shop for a tax professional early** If you use a tax professional to help you strategize, plan and make financial decisions throughout the year, then search now. You'll have more time when you're not up against a deadline or anxious for your refund. Choose a tax professional wisely. You are ultimately responsible for the accuracy of your own return regardless of who prepares it. Find tips for choosing a preparer at [www.irs.gov](http://www.irs.gov).

**6. Prepare to itemize deductions** If your expenses typically fall just below the amount to make itemizing advantageous, a bit of planning to bundle deductions into 2012 may pay off. An early or extra mortgage payment, pre-deadline property tax payments, planned donations or strategically paid medical bills could equal some tax savings. See the Schedule A instructions for expenses you can deduct if you're itemizing and then prepare an approach that works best for you.

**7. Strategize tuition payments** The American Opportunity Tax Credit, which offsets higher education expenses, is set to expire after 2012. It may be beneficial to pay 2013 tuition in 2012 to take full advantage of this tax credit, up to \$2,500, before it expires. For more information, see IRS Publication 970, Tax Benefits for Education.

**8. Keep up with changes** Find out about tax law changes, helpful tips and IRS announcements all year by subscribing to IRS Tax Tips through [www.irs.gov](http://www.irs.gov) or IRS2Go, the mobile app from the IRS. The IRS issues tips regularly during summer and tax season. Special Edition tips are sent periodically with other timely updates.

The IRS emphasizes that each household's financial circumstances are different so it's important to fully consider your specific situation and goals before making large financial decisions.

You can find forms and publications at [www.irs.gov](http://www.irs.gov)



## Offers Tips for Safeguarding Tax Records

Hurricane season has started and the IRS encourages individuals and businesses to safeguard their tax records against natural disasters by taking a few simple steps.

Here are four tips from the IRS to help you prepare in case a disaster strikes.

- 1. Backup records electronically** Taxpayers should keep a set of backup records in a safe place away from the original set. Keeping a backup set of records, bank statements, tax returns, insurance policies, etc is easier now that many financial institutions provide statements and documents electronically. Even if the original record is only available on paper, it can be scanned into an electronic format. With documents in electronic form, taxpayers can download them to a portable backup storage device such as an external hard drive, CD or DVD that you can take with you in the event that you need to evacuate.
- 2. Document valuables** Taxpayers should photograph or videotape the contents of their home, especially items of higher value. A photographic record can help an individual prove the market value of items for insurance and casualty loss claims. Photos should be stored at an outside location.

To document your valuables, the IRS has a disaster loss workbook, Publication 584, Casualty, Disaster and Theft Loss Workbook, which can help taxpayers compile a room-by-room list of belongings.

Please see  
**IRS Offers Tips for Safeguarding Tax Records on page 5**

### **IRS Offers Tips for Safeguarding Tax Records from page 4**

**3. Update Emergency Plans** Emergency plans should be reviewed at least once a year. Personal and business situations change over time as do preparedness needs. When employers hire new employees or when a company changes functions, plans should be updated and employees should be informed.

**4. IRS Ready to Help** If a disaster strikes, affected taxpayers can call 1-866-562-5227 to speak with IRS specialists trained to handle disaster-related issues. Taxpayers can request copies of previously-filed tax returns by filing Form 4506, Request for Copy of Tax Return. Taxpayers can also request transcripts showing most line items on a return online at [IRS.gov](https://www.irs.gov), by calling 1-800-908-9946 or by using Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript or Form 4506-T, Request for Transcript of Return.

More information on preparing for disasters can be found at [IRS.gov](https://www.irs.gov). Forms and publications can be downloaded at [IRS.gov](https://www.irs.gov) or ordered by calling 1-800-829-3676.

***And I'm proud to be an American,  
where at least I know I'm free.  
And I won't forget the men who died,  
who gave that right to me.  
~Lee Greenwood***

## **Independent Contractors: Frequently Asked Questions**

*By ADP Human Resources Dept.*

Working with an independent contractor generally relieves employers of certain obligations, such as requirements relating to employment taxes, minimum wage, overtime, benefits, and workers' compensation insurance. As such, some employers may improperly use the classification to avoid expenses that result from hiring regular employees. In recent years, federal government enforcement agencies have been focused on recouping those dollars.

Given heightened enforcement, employers need to be acutely aware of the narrowly defined criteria for independent contractor status. However, determining whether a worker is an employee or independent contractor can be complex and is a common point of confusion among employers. The following are some of the most frequently asked questions related to independent contractor classifications:

### **Q: What are independent contractors?**

**A:** In general, independent contractors are self-employed individuals in an independent trade, business, or profession who offer their services to the general public under a contract or agreement. However, whether workers are independent contractors or employees under federal or state law depends on the facts in each case. In general, the determination is based on the degree of control the business has over a worker. The more control the business has over the individual, the more likely that individual will be perceived as an employee and not an independent contractor.

### **Q: What are the penalties for misclassifying employees as independent contractors?**

**A:** Federal and state enforcement agencies have made worker misclassification a top priority, and the consequences for misclassification can be significant. In addition to owing back pay, overtime, and benefits to a misclassified worker, the employer may be ordered to pay back taxes, interest, and fines. In some states, employers that intentionally misclassify a worker may also face criminal charges or stop-work orders.

### **Q: How do I determine if a worker is an employee or an independent contractor?**

**A:** A worker is presumed to be an employee unless he or she meets specific criteria; the specific test used depends on the purpose. For example, the Internal Revenue Service (IRS) uses a Common Law Test to determine whether a worker is an employee for federal tax purposes. There are also other tests, including those used by the Department of Labor, the Equal Employment Opportunity Commission, and several states. While each test is slightly different, there are some common elements. Each looks at: (1) whether or not the business has the right to control the worker; (2) whether the worker's services are an integral part of the business; (3) the permanency of the relationship; and (4) the worker's investment in facilities, equipment, and tools. You should carefully review each test and consult legal counsel before classifying any individual as an independent contractor.

### **Q: What is the IRS Common Law Test?**

**A:** The IRS Common Law Test is the most commonly used test for determining independent contractor status. It has three parts that examine factors related to behavioral control, financial control, and the type of relationship between the business and the worker (covered below).

### **Q: What factors are considered when looking at behavioral control?**

**A:** The first part of the IRS test examines whether there is a right to direct or control how the worker does the work, including the type of instruction given (e.g., when and where to do the work, what equipment to use, what order or sequence to follow, etc.); the degree of instruction (detailed instructions indicate the worker is an employee); evaluation systems (measuring how the work is performed rather than the end result is an indication of a employee/employer relationship); and training (which indicates the employer wants the job done in a particular way and is strong evidence of an employer/employee relationship).

### **Q: What factors are considered when looking at financial control?**

**A:** The second part of the IRS test looks at factors that show whether the company has a right to direct or control the financial and business aspects of the worker's job, such as how the business pays the worker and the extent to which the worker has unreimbursed business expenses. When compared with employees, independent contractors are: more likely to have unreimbursed business expenses; make significant investments in

**Please see**

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### **Independent Contractors Frequently Asked Questions from page 5**

tools and facilities; make their services available to other businesses; realize a profit or loss; and are more likely to be paid a flat fee or on a "time and materials" basis.

**Q: What factors are considered when looking at the nature of the relationship between worker and employer?**

**A:** The third part of the IRS test looks at facts that show how the worker and business perceive their relationship, such as whether there is a written contract describing the relationship, the extent to which the worker is available to perform services for other businesses, the permanency of the relationship, the extent to which services performed by the worker are a key aspect of the business, and whether or not the worker is entitled to employee-type benefits.

**Q: Is there a set number of IRS factors that must be met to classify a worker as an independent contractor?**

**A:** No. Under the IRS test, there is no set number of factors that must be met, and no one factor stands alone in making the determination. An employer must weigh all factors and take into account other applicable tests when determining whether an individual is an employee or an independent contractor.

**Q: I gave workers a 1099. Does it mean they are automatically independent contractors?**

**A:** No. A common misconception is that a worker's classification is determined by whether a Form 1099 or Form W-2 is provided to them at the end of the year. The reality is the classification determination must always be made on the basis of whether the worker meets the specific criteria for an independent contractor established by the applicable federal or state law.

**Q: Can I lay off employees and bring them back as independent contractors?**

**A:** As mentioned above, if the requirements of federal and state tests for independent contractors are not met, the worker is an employee, regardless of how you characterize the relationship. Simply reinstating an employee and calling him or her an independent contractor is not going to change his or her status as an employee. Unless the nature of the relationship changes so that it satisfies the tests, the worker would still be your employee.

**Q: Can a worker waive his or her right to be considered an employee and opt to be a contractor?**

**A:** No, a worker cannot waive his or her employee status through a contract or otherwise. Again, the specific criteria of the independent contractor tests must be satisfied to classify a worker as an independent contractor. Otherwise, the worker is an employee, no matter what a contract or waivers says.

**Q: How long can an independent contractor work for me?**

**A:** While there is no specific limit, a continuing relationship between the business and worker is considered an indication of an employer/employee relationship. Since the relationship can change over time, if and when contracts are renewed or extended, review whether the worker still qualifies as an independent contractor.

**Q: What are my options if I have applied the tests and I am still unsure whether a worker is an employee or independent contractor?**

**A:** When in doubt, seek legal counsel or err on the side of caution and classify the worker as an employee. You may also request an official determination from the IRS using Form SS-8. Keep in mind, however, that it ordinarily takes at least six months to get an IRS determination.

**Q: What are the paperwork requirements for independent contractors?**

**A:** If you've made the determination that the person you're paying is a bona fide independent contractor, you should have the contractor complete IRS Form W-9. This form can be used to request the correct name and Taxpayer Identification Number of the worker. The Form W-9 should be kept in your files for four years for future reference in case of any questions from the worker or the IRS. Additionally if you paid a bona fide independent contractor \$600 or more for services provided during the year, you need to complete IRS Form 1099. A copy of the Form 1099 must be provided to the independent contractor and IRS.

#### **Conclusion:**

Federal and state laws establish the criteria for classifying workers as independent contractors. Employers should carefully review and apply appropriate tests before classifying any individual as an independent contractor. Independent contractor relationships should also be reviewed periodically to determine if reclassification is necessary.

