

Tips, strategies and information aimed at helping your business achieve its goals.

A publication of Dunlap & Associates, P.C., Certified Public Accountants and Business Consultants

IRS Begins Conducting Random Audits of Employment Tax Returns

As part of the National Research Program that collects data used to measure federal tax payment, filing and reporting compliance, the IRS will soon begin conducting random audits of employment tax returns. About 5,000 audits will be done over the next three years. Even if your company has done nothing wrong and everything right, it could be selected at random for an audit.

AREAS OF INVESTIGATION

Here are the four main areas that the IRS will be investigating:

- **Worker classification** - to see that companies are properly classifying workers as employees rather than as independent contractors, if indeed they are employees.
- **Fringe benefits** - to properly account for employees' personal use of business vehicles and other business property, as well as to make sure nondiscrimination standards are being properly applied.
- **Officer compensation** - to be sure that salaries paid to owner-employees of C corporations are not unreasonably high so as to improperly reduce corporate taxes and that salaries paid to owner-employees of S corporations are not unreasonably low so as to avoid liability for employment taxes.
- **Reimbursed expenses** - to make sure companies using accountable plans have proper substantiation and that reimbursements are being made for actual costs and not by flat dollar amounts or percentage allowances.

COMPANY RECORDS

To prepare for the possibility of an employment tax audit, be sure your company's records are in order, and all of the following information is retained:

1. Amounts and dates of all wage, annuity, and pension payments

2. Amounts of tips reported
3. The fair market value of in-kind wages paid
4. Names, addresses, Social Security numbers, and occupations of employees and recipients
5. Any employee copies of Form W-2 that were returned to you as undeliverable
6. Dates of employment
7. Periods for which employees and recipients were paid while absent due to sickness or injury and the amount and

- weekly rate of payments you or third-party payers made to them
8. Copies of employees' and recipients' income tax withholding allowance certificates (Forms W-4, W-4P, W-4S, and W-4V)
9. Dates and amounts of tax deposits you made
10. Copies of returns filed
11. Records of allocated tips
12. Records of fringe benefits provided, including substantiation

Independent Contractors: How to Classify Workers

If your company uses independent contractors and therefore faces a heightened risk of a costly IRS payroll tax or benefits audit, perform a quick review of some of the key things the IRS tells its agents to look at in determining whether a worker is an independent contractor or an employee.

The primary inquiries fall into three categories. Who has financial control of the job? Who can exercise control over

how the worker performs the specific task? And how do the parties themselves view the relationship? When reviewing the checklist, keep in mind that the IRS will make its decision based on the whole picture, not just a single factor.

Workers are more likely to be classified as independent contractors if they:

- Make a significant investment in business property, such as tools;
- Pay their own business expenses;
- Receive a flat fee that is not based on an hourly or similar rate;
- Are not prohibited from doing work for other companies;
- Can pay subcontractors to get the job done;
- Are not performing services as an integral part of your regular business;
- Have a contract with an enforceable liquidated damages provision;
- Can make a profit;
- Can suffer a loss.

Workers are more likely to be classified as employees if they:

- Are given specific instructions and on-going training in how to get the work done;

Philadelphia Amnesty Ordinance Signed

Mayor Nutter has signed an ordinance providing a tax amnesty period that will occur over 45 days in May and June 2010 and overlap with the state amnesty program. The amnesty measure applies to 17 different taxes administered by the city and applies to debts originally due and payable from February 1986 through June 2009. Under the terms of the amnesty bill, 100% of accrued penalties and 50% of accrued interest due on delinquencies are waived after the taxpayer makes all required payments. Certain eligibility requirements apply.

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IRS CIRCULAR 230 DISCLOSURE:

To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (a) avoiding penalties under the Internal Revenue Code or (b) promoting, marketing or recommending to another party any transaction or matter addressed herein.

Guidance on First-time Homebuyer Credit

Congress created a temporary first-time homebuyer tax credit in 2008. The credit has been so popular that Congress extended and increased it in the American Recovery and Reinvestment Act of 2009 (2009 Recovery Act). The recently-passed Worker, Homeownership and Business Assistance Act of 2009 (2009 Worker Act) again extended the credit and expands it to some homebuyers who are not "first-time" homebuyers.

Individuals who have owned and used the same residence as their principal residence for any five consecutive year period during the eight year period ending on the date of the purchase of a subsequent principal residence may be eligible for a reduced credit of \$6,500 (\$3,250 for married couples filing separately). First-time homebuyers are eligible for a credit equal to 10 percent of the purchase price of the residence (with a maximum credit of \$8,000; \$4,000 for married couples filing separately).

The enhanced and extended credit is available for qualified purchases on or before April 30, 2010. If a taxpayer enters into a binding contract before May 1, 2010, to close on the purchase of a principal residence before July 1, 2010, the new law treats the credit as not expiring until July 1, 2010.

The 2009 Worker Act also makes some other changes to the homebuyer credit. The new law raises the income limits for homes purchased after November 6, 2009. The credit phases out for individual taxpayers with modified adjusted gross income (MAGI) between \$125,000 and \$145,000 or between \$225,000 and \$245,000 for married couples filing joint returns. Additionally, the purchase price of

a principal residence eligible for the credit is capped at \$800,000 for purchases after November 6, 2009.

For qualifying purchases in 2010, taxpayers have the option of claiming the credit on either their 2009 or 2010 return. This treatment could accelerate your expected refund. Keep in mind that you do not have to claim the credit. Your accountant can help you determine if taking the credit fits your tax strategy.

Independent Contractors..., cont.

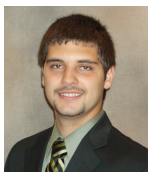
- Cannot work for others;
- Have expenses paid by your company;
- Are paid with a salary or hourly wage;
- Do not have a significant investment in their trade or business;
- Are an integral part of your regular business;
- Receive direct reimbursement for all, or almost all, expenses.

Other factors are:

- Whether or not the work is performed on the business's premises;
- Whether the worker has flexibility in setting hours;
- Whether the relationship is temporary or short-term;
- Whether the work is full- or part-time;
- Whether the worker performs services for one or more businesses.

If you have any questions, please contact your accountant or give us a call at 215.997.5600.

What's new?



Aaron Good has received his CPA license! Aaron fulfilled the requirements associated with the granting of the license, including passing the Pennsylvania Uniform CPA Examination. An individual must pass all four parts of the exam, and have at least two years of public accounting experience - including 800 hours of attest activity - in order to be certified as a public accountant within the Commonwealth of Pennsylvania.



John Leatherman has joined the firm as a Supervising Senior accountant in the audit and accounting services departments. John brings more than eight years' experience to his new role providing audit services for commercial entities and not-for-profits, as well as accounting and tax services for privately held companies, family-owned businesses, and individuals.

QUICKBOOKS® QUINTESSENTIAL



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This quarter I would like to introduce you to a nice little feature QuickBooks has

integrated into their 2009 and 2010 software. It's called "Company Snapshot" and it can usually be found right next to the "Home" icon on the icon bar at the top of your QuickBooks company file.

Clicking on this icon opens you into a window containing all the very basic, yet important information most business owners love to know offhand. The content displayed shows various charts and graphs for several main aspects of the business. Do you want to see your busiest or most profitable month? Take a look at the "Income and Expense Trend" which shows the monthly breakdown of income and expenses. Would you like to know your main accounts receivable outstanding? Well, just browse the "Customers Who Owe You Money Chart." The snapshot screen shows everything from monthly net income and expenses to account balances and even contains five-year income and expense comparisons.

Accessing it is easy! Just click on the "Company Snapshot" icon and all this information is right at your fingertips. From there you can personally customize the screen by clicking the "Add content" option and scrolling through what QuickBooks has to offer. If you want to remove content that is not helpful just hit the "X" button in the top right and it removes it from the view and places it back in the content gallery. Each snapshot is customized by user...and owners - don't worry - it still provides the normal restricted access that is already set up for your employees.

As is always the case, this tool is only as accurate as the information entered into the system, but in most cases it should be useful to everyone from bookkeepers to owners. Hopefully, this provides you with a ton of information at the click of a button. Enjoy!