

Deducting All Medical Expenses

Sometimes it isn't what you do but how you do it that is important. Many of you are self-employed and married. To deduct all medical costs, prescription drugs, dentist, eye care, etc. without the huge limit on Schedule A (7.5% of adjusted gross income) you can make your spouse an employee of your business, pay them monthly for services actually rendered, and deduct this all under a section 105 reimbursement plan. This deduction comes off on the business form Schedule C so it saves income tax and self-employment tax. In the last few months two tax court decisions reaffirm this as a legitimate strategy. If you are single you should use a separate business entity such as a corporation or LLC. This strategy normally yields a very high deduction, but it does have to be done right and documented carefully. Let us know if this is a strategy you would like to implement. - Brad

Warning! IRS E-Mail Scam!

The IRS has warned us in the past of various scams, but now that some of our clients have received them, we would like to make all our clients aware of this e-mail scam. *The most important part to remember is that the IRS will never send out unsolicited e-mails.* If you ever receive an e-mail from the IRS when you had not contacted them first, you can be certain it is a hoax. The content of the e-mail may ask for donations for southern California wildfire victims, offer to pay you for taking a survey, or inform you they have a refund available for a previous year. They will direct you to a false IRS website and ask for your financial information so they can raid your bank account and steal your identity. If you get any e-mails you are unsure of, feel free to ask us to confirm its validity. You can find more information on this topic at the IRS website www.irs.gov under "Warning on scam e-mails." -Andrew

Audit Corner

The auditor met with me in March of 2006 to audit the 03 tax return. A few phone calls followed, spread through the year. She took a long time between calls and the questions were so few I thought she may let us off easy, but she expanded the audit to include another year. In February of 07 she sent her report showing the disallowance of deductions we had not even talked about. She disallowed investment deductions from a rental, business, and employee business deductions that were not reimbursable. The tax owing was over twenty thousand dollars! We appealed the decision. The taxpayer spent many hours making sure their receipts were as complete as possible.

An appeals officer is reluctant to overturn the findings of a comrade-in-arms, the initial auditor. To make it easier for them to change the findings, it is best to present new information that the initial auditor did not see. That wasn't hard because the initial auditor had not asked for verification on many of the deductions she disallowed. However, we did have a few categories we did not have enough receipts for.

The taxpayer came with me to the meeting because I knew his memory of his activities would go a long way to persuade the auditor. First we came on strong that the first auditor had not asked for verification of many of the items she disallowed and that we had all the proof with us. I brought a briefcase that is 8 inches wide and my client, Johan, brought two intimidating boxes. She believed that we had the verification for everything so she tried to stick to concepts of the law. The employee expenses had been disallowed because the auditor believed the spouse could have been reimbursed but didn't ask for it. That was wishful thinking. We are talking about \$40,000 of sales expenses. We showed the appeals officer the employee handbook which had a very few items that one can be reimbursed for. Bingo! She conceded. Next, the auditor had disallowed rental expenses because it showed no income. Rental property needs to show income for expenses to be deductible each year. Some rent had been paid through escrow. Due to the unusual agreement the taxpayer had with the renter, who bought the property after a few months of lodging, the taxpayer had forgotten about the rent. So after some debate we won that issue.

Lastly were the business deductions which the appeals auditor believed related to the rentals and should not have been on the Schedule C business report. Our contention was that they related to his consulting business and not the rentals. I said if they did relate to the rentals they would still be deductible on the rental forms. She contended we were not entitled to them at all because they were items like phone, bank charges, travel, office in the home.

(Article continued on other side)



They don't fit on a rental schedule very well and since my client is a real estate professional/consultant he should take them on the C. That is how the day ended.

After a day of reading court cases I found one wherein the taxpayer had taken the same kind of deductions on Schedule A as an investment expense. The court simply moved them back to the rental schedule. So I sent her a long letter citing the case and including a lot of receipts since we knew she didn't really want to wade through them. At this point we are waiting to hear back from her. Stay tuned.

This is a case where the taxpayers did nothing wrong, they just have a tax return with lots of red flags on it. If you worry about audits, remember that you can take advantage of our Audit Defense service for one low fee. - Brad

Our New Website!

For the past few months now, ATP has had a new website up (same URL, www.alliedtax-planners.com) and running with LOADS of new content. Check it out today and look at pictures of the Halloween Party on the ATP Events button. This is the latest in our efforts to bring you the best, most pertinent information concerning your tax welfare, with articles, calculators, newsletters, and more. - Matthew

Thank You & Holiday Wishes

Everyone at ATP (and Jerry!) wants you to know how much we appreciate your patronage and the friends & family you have sent our way. We strive to bring you the best service, information & tools available. We hope this holiday season finds you well, closer to your dreams and goals than last year, and close to your friends and family. From all of us, to all of you:

HAPPY HOLIDAYS!!!

Upcoming Cashflow Parties:

(Now every 2nd Tuesday of the month)

Tues., Nov. 13th 6-9 PM

Tues., Dec. 11th 6-9 PM

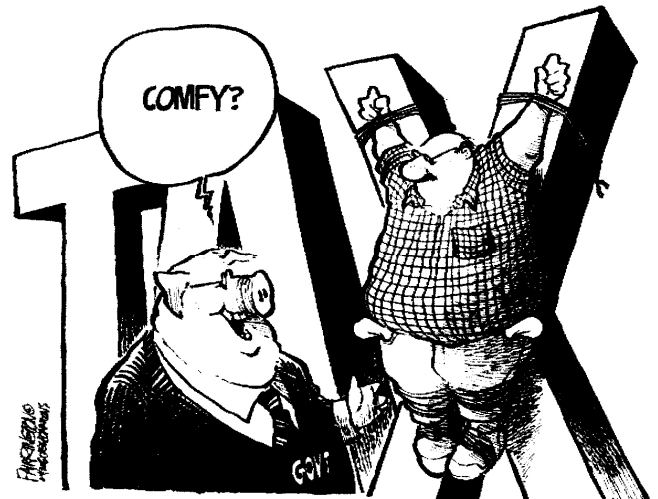
Tues., Jan. 8th 6-9 PM

You can read books and watch videos about how to get rich, but nothing will help you learn how to think like the rich quicker than playing the Cashflow game! Come out and see for yourself!

\$5 charge to cover snacks & drinks

Games will end at 8:45 to allow for discussion.

Funancial Section



ALLIED TAX PLANNERS
TAX & FINANCIAL STRATEGISTS

21666-d r EDWOOD Road
c ASTRO v ALLEY, CA 94546

