



Important Reminders

Tax deadlines for June

June 15

- Second quarterly installment 2017 individual estimated tax due
- Second quarterly installment 2017 estimated tax for calendar-year corporations due
- Individual tax filing deadline for U.S. citizens living or serving in the military overseas

Keep your audit fears in check

Getting audited by the IRS is no fun. However, your chances of being audited are probably lower than you think. A look at the latest IRS statistics for 2016 reveals some interesting and reassuring facts about the risk of an IRS audit.

Audits are becoming less common. The number of individual tax returns the IRS audited fell to a 12-year low last year, to just above 1 million. Audits have been steeply declining over the last five years, which the IRS commissioner said was due in part to declining budgets and a smaller workforce.

Audits target the rich. It's a fact: IRS audits target the super-rich. The statistical chance of being audited increases dramatically for people of higher income levels.

Missing data can get you audited. High income isn't the only thing that gets you audited. Any missing data on your return can also trigger an audit.

Standing out gets you audited. The IRS takes a close look at business expenses, charitable donations, and high-value itemized deductions. They have statistical data on what amounts are typical for various



STEPHENSON
& WARNER, INC.
CERTIFIED
PUBLIC
ACCOUNTANTS

June Monthly Newsletter

2017

professions and income levels. If your return stands out from what is "normal," it may be flagged for review by the agency's computer system.

More audits are done by mail. If you face an audit, most likely it will be done by mail. Only about one in four IRS audits are field audits conducted in person by an IRS agent. The most common issues, such as math errors or missing data, are done through mail correspondence.

If your issues are more complicated, you may face a field audit – and you may owe more to the IRS. The average field audit recommended the individual pay an additional tax of nearly \$19,000, while the average correspondence audit recommended a payment of less than \$7,000.

Most audits end up costing you. You can fight the tax law, but the tax law usually wins. Most people audited by the IRS end up owing additional tax. Only 11 percent of correspondence audits and 8 percent of field audits concluded with a "no change" finding in favor of the taxpayer.

4 tips to landing your dream home in a seller's market

Here are some suggestions to landing your dream home in our current real estate market.

1. Be nimble, be flexible. Try to investigate new listings quickly – within hours of their first posting, if possible. If you're interested in a house but an inspection finds a few flaws, you may have to be flexible about accepting a house with a few quirks or in need of some repairs.
2. Make a strong offer. A seller's market isn't a time to lowball your first offer on a house you want. If you've prepared and set your expectations below your minimum price range, you should be able to make a strong offer to ensure you are among the most attractive bidders. You shouldn't wildly overpay, but making a strategic offer above the listing price may sweeten the deal enough to close quickly.
3. Earnest money. You may consider offering a meaningful earnest money component to your offer to show you are serious. Just understand that this money is put at risk if you later change your mind.
4. Few strings. Try to make your offer as simple as possible. The more contingencies, the more room for someone else to sneak in and snap up your target home. Flexible move-in dates may help the seller navigate their purchase. Having to sell your home before buying theirs may create a snag versus another offer.



Reasons to incorporate your business

Here are some reasons you may want to consider incorporating your growing business.

Protect your personal assets from creditors. When you operate your business within a corporation, creditors are often limited to corporate assets to satisfy a debt. Your home, savings, and retirement accounts are no longer fair game.

Provide a personal liability firewall. The corporate form can help protect you against claims made by others for injuries or losses arising from actions of your business.

Issue shares of stock. You can help build your business by issuing shares to new investors, or by offering stock options to key employees as a form of compensation.

Gain tax flexibility. A corporation can provide you with more tax flexibility. Deliberate planning can help optimize the taxable division between corporate income, dividends, and your personal wages.

Enhance your business presence. Being incorporated sends a signal that your business is a serious enterprise and it could open doors to opportunities not offered to sole proprietors. Consumers, vendors, and other businesses often prefer to do business with incorporated companies.

If you are still going over the pros and cons of incorporating your business, pick up the phone. Together, we can complete a thorough tax review that will help shed light on the impact such a move will have on your business situation.

Before you go to the Club.....

We are often asked whether you can deduct dues for clubs at which you entertain customers or that otherwise may be relevant to your business. These dues may or may not be deductible, depending on the type of club and its purpose.

Your business generally can't deduct dues paid to a club organized for business, pleasure, recreation or other social purposes. This disallowance rule takes in country clubs, golf clubs, business luncheon clubs, athletic clubs, and even airline and hotel clubs. However, you can deduct 50% of the cost of otherwise allowable business entertainment at a club, even if the dues you pay to the club are nondeductible. For



STEPHENSON
& WARNER, INC.
CERTIFIED
PUBLIC
ACCOUNTANTS

June Monthly Newsletter

2017

example, if you have dinner with a client at your country club after a substantial and bona fide business discussion, 50% of the cost of the dinner is deductible as a business expense.

The club-dues disallowance rule generally doesn't affect dues paid to professional organizations including bar associations and medical associations, or civic or public-service-type organizations, such as the Lions, Kiwanis, or Rotary clubs. The dues paid to local business leagues, chambers of commerce and boards of trade also aren't considered nondeductible club dues. However, an organization isn't exempt from the disallowance rule if its principal purpose is to provide entertainment facilities to its members, or to conduct entertainment activities for them.

Finally, keep in mind that even if the general club-dues disallowance rule doesn't apply, there's no deduction for dues unless you can show that the amount you pay is an ordinary and necessary business expense.

For more details on the club dues question, or on the status of your other business expenses, please feel free to call our offices. We always look forward to hearing from you.