



ALLIANT ADVISORS

FIND DIRECTION



The Navigator

Important Markers To Guide Your Way

March 2006

For more than twenty years the team at Bunge + Associates has been committed to listening to our clients and seeking new ways to improve our services. As part of that commitment we recently changed our name to Alliant Advisors to emphasize the passion we have for working in close alliance with our clients to Find Direction for their business and personal goals. To support that continuing promise we will be improving our dialogue with you. We will periodically be sending you bits of helpful and useful information through e-mail to keep you up to date on any current changes, due date reminders, or other information that may be relevant to your specific needs.

We hope you will enjoy and value this information. If you do not wish to receive this information by email please respond to this message and we will remove you from the list. For more information about any aspect of our services, visit www.alliant-advisors.com or call your local office.

The Alliant Team

Sole Proprietors Likely to Be Focus of IRS Audits

The Associated Press reports, that sole proprietors, independent contractors, self-employed workers and others accounted for \$68 billion in missing taxes, according to the IRS.

Sole proprietors are at least 10 times more likely to be audited this year than other business entities. Last year, with more enforcement personnel available, the IRS audited almost twice as many individuals as five years previously. Sole proprietors are advised to consider making their businesses corporations or LLCs to avoid audits and to hire a certified public accountant for tax advice.

What are the red flags the IRS will be looking for in sole proprietor returns? Underpayment of quarterly estimated payments, or late payments, could be significant to the IRS. Sole proprietors should also watch their income-to-deduction ratio. If this ratio exceeds 52 percent, an individual is more likely to be audited. Finally, beware the home office deduction – a prime IRS deduction, and avoid vague expense categories, such as miscellaneous. Other errors that tip off the bureau are invalid or incorrect Social Security numbers for the filer or dependents, math errors, and incorrect bank deposit numbers or routing numbers. Returns will get special attention when the taxpayer fails to sign and date the return or fails to attach W-2's.

Generally the IRS assigns a numeric score “somewhat like a credit rating” to each return, and thereby determines which returns will require more review. But “the major reason of all audits is illegal tax shelter,” “or use of offshore credit cards.” “Sometimes we (the IRS) look at an industry and if you working that industry you might be audited,”

Returns prepared by computer are neat and less likely to have math errors experts agree. Taxpayers should prepare their return early, but should not file early. The IRS advises using only reputable tax preparers, those who have the title “enrolled agent” meaning that they've taken a qualifying test from the IRS.

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