

Tax Planning

by Ted Cushman

No one likes paying taxes. But since everyone has to, the world is full of organizations and publications devoted to helping taxpayers with their life's least pleasant work.

This month's featured books aren't geared toward helping you actually file your return. Instead, they aim to help you keep your tax obligation down, stay out of tax trouble, and, if the worst happens, minimize the pain of a close encounter with the IRS.

Contractor's Year-Round Tax Guide by Michael C. Thomsett (Craftsman Book Company, 1995; 800/829-8123). Paperback, 8 1/2x11, \$26.50



Of the 25 chapters in Michael Thomsett's *Contractor's Year-Round Tax Guide*, only one (Chapter 19) actually deals with filing returns. As Thomsett puts it, "Your income tax return ... simply reports the results of the planning you've done ... The real work is in the planning, which should be done all year. That's why I feel it's a mistake to hire a tax expert simply to fill out the return. You need tax-planning advice as much as or more than you need help filling out the form."

So Thomsett's book is devoted to planning your contracting business to minimize the tax bite. Basic elements of tax strategy — such as whether or

not to incorporate, how to depreciate capital assets, how to compensate employees and subs, which accounting method to use, and how to maintain proper tax records — are covered chapter by chapter.

No one on earth has time to read the 350,000 pages of the U.S. tax code. At about 200 pages, the *Contractor's Year-Round Tax Guide* is enough to familiarize you with the basic issues. A careful reading of this book won't substitute for professional tax advice, but it will definitely help you understand

what your accountant is telling you. As simplified as it is, however, this book is not light reading. You'll want to set aside some serious hours to study it.

While we're on the subject of serious tax planning, have you ever been audited by the IRS? According to tax attorney Frederick Daily, author of *Stand Up to the IRS*, the average taxpayer has about a 50% chance of



Stand Up to the IRS by Frederick W. Daily (Nolo Press, 1995; 800/992-6656). Paperback, 8 1/2x11, \$21.95.

being an audit target (or should we say, "audit victim") at least once in a lifetime. Since self-employed contractors are a high-risk category, *JLC* readers probably face a greater likelihood of undergoing this ordeal. Survivors say the experience is somewhat less enjoyable than a weekend of exploratory

IRS Web Site

The Internet offers an expanding array of online resources for tax filers. To find the good ones, head straight to the site called "Essential Links to Taxes," located at www.el.com/ToTheWeb/Taxes. This site lives up to its name, with a full range of tax-related resources.

First of all, there's a link to the IRS's Web site, where you can download most IRS forms and related instructions for this year and for previous years. The IRS site's address is a doozy — www.irs.ustreas.gov/prod/forms_pubs/index.html — but don't worry. Once you're at the "Essential Links" page, it's all point-and-click.

To be able to view and use the IRS forms, however, you'll first have to download a freeware program called Adobe Acrobat Reader, available for both Mac and Windows. It's best to download this right from Adobe's site at www.adobe.com. Do it during off-peak hours — the download takes two hours with a 14.4 kbps modem.

By the way, when you download forms, don't just click on the title. Use your browser's "Save This Link" command and save the files to your hard drive.

For a quick estimate of what your taxes will be, try a site called NetTax, which asks you for the data and figures your taxes online in about a minute. The site is located at www.vni.net/~nettax/ and the instructions are self-explanatory. The output isn't anything you can send to the government, but it is a quick way to get the bad news and get over it.

Paper Forms

Until the brave new world of cyber-taxes finally arrives, most contractors will still need reams of real paper forms to process their taxes: 1099s for their subs, W-2s for their employees, and the whole alphabet-soup menagerie for the rest of their expenses. A well-stocked office supply store should have the forms you need, says *Tax Talk* columnist Len Pytlak, but he also knows two mail-order houses who might give you a better deal: Nelco, Inc (P.O. Box 10208, Green Bay, WI 54307; 800/266-4669) and TaxAid, Inc. (P.O. Box 201356, Minneapolis, MN 55420; 800/888-5803).

surgery on your sinuses.

Stand Up to the IRS is a detailed battle plan for holding your own in an audit. The deck is stacked against you, warns Daily — the vast majority of people the IRS picks to audit do get assessed for some kind of back taxes and penalties. But there are ways to improve your chances and cut your losses. Knowing what to expect and applying the step-by-step tactics Daily describes could help you preserve both your financial and your emotional health. From your first encounter with the auditor, to the appeals process, through the details of paying what you owe when you finally lose, Daily acquaints you with the ins and outs of the whole tortuous process.

Daily's detailed observations and recommendations, gleaned from years of experience in the audit arena, read like a road map to a mine field. Don't volunteer information, he advises: Give the auditor exactly the documents she asks for and nothing extra.

If she gazes at you with an expectant look, waiting for you to say something, do the same right back. If you get in a jam, stall: You can always ask to stop for the day so you can consult your tax professional.

Daily also explains the difference between the garden-variety auditors who handle most cases and the elite Special Agents from the IRS's Criminal Investigation Division (CID). The auditors are little more than clerks, but the Special Agents travel in pairs, carry guns and badges, and are among the federal government's best-trained law enforcement personnel. If a Special Agent visits you, it's because you or someone you know is being investigated for a serious tax crime. If you're the target of the investigation, the agents have to tell you so and read you your rights. Clam up and get a good lawyer, warns Daily. Above all, don't lie to an agent — that in itself is a serious crime that could send you to prison.

The IRS has some particularly insidious snares for small businesses. Payroll

taxes stand out: If the proper amounts aren't withheld and deposited, penalties can be enough to wipe out the employer's personal assets as well as his business. When a business fails while still owing back payroll taxes, the IRS can turn to anyone involved in handling the payroll to make good — even a payroll clerk with no executive authority. So, for example, if your wife handles your books and you go out of business owing back payroll taxes, the IRS has no qualms about garnishing your wife's wages from another job or confiscating her bank account.

Stand Up to the IRS is a surprisingly readable, even entertaining book. The audit game it explains reminded me of the old Coyote and Road Runner cartoons — the IRS coyote with its improbably complex traps and the taxpaying road runner with his head-for-the-hills mentality. In this cartoon, however, it's usually the road runner who winds up a walking accordion. Read the book — you'll be scared straight. ■