

## What percentage are you? The 1%, 12%, 28% or 99%? IRS audits on the rise for high income individuals and corporations

Recently politicians, protestors, and the media have been debating whether or not high-income individuals and corporations are paying their so-called "fair share" of taxes. Apparently this is also an IRS concern. Steven Miller, deputy IRS commissioner for services and enforcement wants to, "assure that those at the lower end of the spectrum know that those at the higher end of the spectrum are subject to the same rules and enforcement as everyone else."

IRS spokesperson, Michelle Eldridge, quoted in a USA Today article, softens their position, "We base our audit decisions on tax issues, nothing else. We don't play politics here."

Even so, statistics provided by the IRS indicate that 12% of individuals earning over \$1,000,000 and 28% of corporations with assets of at least \$250 million were audited last year. On the other hand, those with earnings below those thresholds are less likely to be audited.

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## Sobul Primes & Schenkel Mission Statement

### A promise from our firm to our clients and ourselves

You may have noticed over the years, our guiding values on stationery and newsletters such as, "Maintaining the highest level of service to our clients is at the foundation of everything we do," and, "Freeing clients to pursue their passions, since 1981." Or maybe you saw on our website the more complete description of "our approach," "beyond full service," "progressive technology," "timeliness and planning" and "building knowledge." While all those statements were, and are, true, we have now created a fine-tuned hybrid of our principles and are pleased to present, the Sobul, Primes & Schenkel Mission Statement:

*"We are a full service accounting and business management firm. Along with the high level of service expected from any leading firm, we make a special commitment to adopt client problems and solve them, whatever it takes. We stay focused on the needs of our clients and encourage those who work for us to maintain fulfilling, balanced lives. This focus on people is why we have kept many clients, professional resources and staff for decades. Our knowledge, experience, cutting-edge technology and global reach through CPA Associates International are tools that have allowed us to succeed for more than thirty years."*

Granted, this is not as catchy as "...to boldly go where no one has gone before," or "...to protect and serve," but we're proud of our new mission statement and believe it promotes who we are and what is important to us. We hope you will agree.

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The audit rate of those earning less than \$200,000 was around 1% -- the same percentage for corporations with assets under \$10 million. No matter your income, the big picture is that the percentage of individual returns audited is increasing and, in fact, has doubled since 2001.

There's no guaranteed way to avoid an audit, but, as always, we are here to keep the percentages on your side should you receive an unwelcome communication from the IRS.



Don't let a smile be your umbrella. Reviewing your insurance portfolio may reveal a potential vulnerability

Basic home and auto insurance protects assets and covers expenses for run-of-the-mill mishaps. Unfortunately, some tribulations lead to trials. Lawsuit horror stories, where plaintiffs proving negligence turn a car accident into a multi-million dollar judgment, should provide a cautionary tale to the rest of us.

One way to project yourself is with umbrella insurance. Umbrella insurance is a type of supplemental liability policy that shields assets and potential income beyond the limits of any basic insurance policy. The umbrella kicks in when the other policies run out. If you have \$300,000 liability coverage on your car insurance and \$500,000 liability on your homeowner policy, a \$1,000,000 umbrella coverage would extend your protection to \$1,300,000 and \$1,500,000, respectively. Additionally, the umbrella liability coverage may further strengthen your protection by also covering situations excluded from the primary policy.

Even if you already have an umbrella policy, are you sure you have enough coverage? It has become very common for individuals to have \$5,000,000 or \$10,000,000 limits on their umbrella policies. Additionally, consideration needs to be given to uninsured motorist coverage since some umbrella policies don't include this or include it at a lower limit.

We can have your insurance portfolio reviewed by one of the insurance experts that we work with. Please give us a call to discuss your situation.

## New California law (and IRS) focuses on worker misclassification

### Employee vs. independent contractor -- it's not just a matter of semantics

There's nothing new about the battle between the IRS (and other agencies) and businesses that classify workers as independent contractors primarily to save money on taxes and benefits. In the past, the legal battlefield was a bit of a slippery slope based on common-law tests and loose interpretation. Sometimes the government wins these cases, sometimes not.

A new state law and an IRS program are beefing up the government's tools for handling employers who "willfully" misclassify employees. In short, classifying an employee as an independent contractor, when you have no reasonable basis for doing so, can expose you to the possibility of penalties and interest – in addition to the employer taxes and other fees that should have been paid on employee wages. Here are some of the recent events:

The IRS and the Department of Labor have agreed to begin sharing information regarding employee misclassification.



#### California Senate Bill 459

– effective January 1, 2012, increases employer penalties for voluntarily and knowingly misclassifying the status of a worker.

#### IRS Voluntary Classification Settlement Program

– announced September 21, 2011, provides a pathway for eligible businesses to get a "fresh start" (no interest and penalties, but a "small" fee) with the IRS after having consistently misclassified workers. Sounds great, however, this only applies to your IRS liability, not EDD or other state agencies, and additional collateral issues may exist.

This also includes housekeepers and caregivers – yes, the scope of this discussion includes employment of household help.

With these new events and increased government focus, it's time to review your employee classifications. Some are even suggesting consulting with an attorney before classifying any worker as an independent contractor.

It will take some time and cases to fully define the new rules and how they will work, exactly. Even so, there's a lot more we do know that cannot be covered in a few bullet points. We recently sent out an email alert regarding worker misclassification and how it might affect your business. You can read the whole email alert, and use the half-dozen resource links at the bottom, by visiting our website (spscpa.com), clicking on the "newsletters & newsflashes" tab at the top of the screen and then click the headline: Newsflash - SPS Email Alert Dec 2011.

We're ready to help you sort through the options for your specific situation.

Please note that these articles contain general information and are not a complete analysis that you should rely on in making decisions. Our goal is to bring these matters to your attention and suggest that you review your payments and practices. We are here to assist you. These may be difficult issues to address, and you may need to consult with your legal counsel as well.

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