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Newsletter Article Reprint

The IRS is looking at YOU!

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For many years, the IRS has pretty much left professional practices alone except for the most egregious violations. At present (and before the financial crises of the week of September 15, 2008) it is estimated that the "Tax Gap," the difference between the amount the IRS needs to run the government and the amount it is taking in, is \$346 billion dollars! Of that amount 75% or \$260 billion dollars is attributable to small business that do not pay what the IRS considers is their appropriate share of the tax burden.

This includes dental and other professional practices. The IRS is determined to narrow that gap and has committed to pursue small business in order to do so.

There are three main areas of focus that the IRS is concentrating on. In order of priority, they are:

1. Unreported Income
2. S-Corporation distributions (Bonuses and Dividends)
3. Worker Classification (Independent Contractor Status)

Let's examine each of these issues.

UNREPORTED INCOME

Unreported income is pretty self explanatory. However it can be divided it into two specific categories.

1. Actual cash that comes into the practice that is not reported
2. Personal expenses that are reported as practice expenses. It is not necessary to address unreported cash. We all know that the IRS expects us to report ALL income that comes into the practice. How can they know? They are aware of practice expense norms. It becomes pretty obvious if laboratory and supply expenses are much higher than the national norms as a function of gross income, there is a possibility that income is not being reported. IT'S AUDIT TIME!

Personal Expenses that are reported as practice expenses are actually much easier to determine than unreported income. The IRS will order an audit and you will need to produce the actual proof that the expenses you claim to be necessary are actually practice expenses. Get the shoebox organized, because, IT'S AUDIT TIME!

S-CORPORATION DISTRIBUTIONS

S-Corp distributions are also very easy for the IRS to look at. If you take a "less than normal owners compensation" and take the difference as a bonus or dividend at the end of the year in order to avoid paying the FICA and Medicare Supplement taxes, IT'S AUDIT TIME!

WORKER CLASSIFICATION

Worker classification is whether your associate(s) is treated as employees and you are paying the required taxes as an employer or whether they are truly Independent Contractors. The IRS has re-classified the Independent Contractor/Employee test into three main categories:

1. Behavioral Control
2. Financial Control
3. Relationship of the parties

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Rather than go into all of the issues with each of these categories, we will give you the five main issues that usually disqualify an associate in a dental practice as an Independent Contractor.

1. If the practice pays the associate, he/she is an employee.
2. If the practice provides patients to the associate, he/she is an employee.
3. If the practice does the scheduling for the associate, he/she is an employee.
4. If the practice determines the working hours of the associate, he/she is an employee.
5. If the associate does not intend to buy-into or purchase the practice, he/she is an employee.

If you have an Independent Contractor that meets any one or all of the above criteria, IT'S AUDIT TIME!

We strongly recommend that you take this information to heart, because the auditors are gathering and they will be very carefully examining a much larger percentage of small business tax returns in the coming years.

The penalties and interest that will be charged to those who fail the audits will be very significant. They are not giving any grace, because they need the money.

After the additional commitments the government has made this month to bail out AIG and the sub-prime mortgage market, it will add an additional \$700 billion to the deficit roles, bringing our national debt to the \$11.5 trillion dollar mark. Their need for tax dollars is increasing as you are reading this.

Take the necessary precautions now to avoid not only an audit, but the additional costs of penalties and interest if you are found to have crossed the line on these issues. Remember, the IRS can and will go back into past years if they find irregularities

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