



July 15, 2006

# Tax Pro News

Volume 2, Number 4

**Summer Tax Special**

## In This Issue

1. IRS Most & Least Audited Returns
2. Basic tax issues-do you know these answers?
3. An interesting piece of IRS advice from *Extreme Makeover-Home Edition*
4. The advantage of the HRA



**August & September seminar schedule:**

Aug. 7-Accounting-Twin Falls, ID  
(Sponsored by Idaho Soc. of CPAs 208-344-6261)

Aug. 8-Technology-Twin Falls, ID  
(Sponsored by Idaho Soc. of CPAs 208-344-6261)

Aug. 10-Farm/Ranch-Fargo, ND (Sponsored by NDSA)  
(701-255-6502)

Aug. 11-Technology-Fargo, ND (Sponsored by NDSA)

## 2004 Audit Statistics From the IRS

Here is a quick test for you. As an average tax return preparer, which commonly prepared return faces the lowest audit rate from the IRS's own statistics?

The lowest 3, in order of least audited:

1. Schedule F returns with < \$100,000 gross revenues (.48%)
2. Form 1040A with total positive income <\$25,000 (.52%)
3. Form 1040 with between \$50,000 and \$100,000 total positive income (.57%)

The highest 3, in order of most audited:

1. Schedule C with <\$25,000 in gross receipts (3.68%)
2. Schedule C with >\$100,000 in gross receipts (3.65%)
3. Schedule C with between \$25,000 and \$100,000 in gross receipts (2.21%)

So it is pretty evident that small business owners who do not incorporate face an extremely high rate of audit. Interestingly, their audit rate is higher than any other business return!

(701-255-6502)

Aug. 16-Technology-**Scranton, PA** (Sponsored by PSPA) (570-347-3761)

Aug. 22-Tax Strategies for Business Owners-Des Moines, IA (Sponsored by AAI 800-925-4667)

Sept. 6-1120/1120S/1065/LLC Update-Indianapolis, IN

Sept. 7- Tech/Acctg-Schererville, IN (Sponsored by ISPA 219-659-5482)

Sept. 11-Technology-**Ft Collins, CO**

Sept. 12-1120/1120S/1065/LLC Update-**Ft Collins, CO**

Sept. 13-Technology-**Garden City, KS**

Sept.14-Farm/Ranch-**Garden City, KS**

Sept. 15-1120/1120S/1065/LLC Update-**Cheyenne, WY** (Sponsored by WAPA) (370-672-2721)

Sept. 16-Accounting-**Cheyenne, WY** (Sponsored by WAPA) (370-672-2721)

Sept. 19-20 1120/1120S/1065/LLC In Depth-**Oklahoma City** (Sponsored by OSA) (405-677-2151)

Sept. 21-1120/1120S/1065/LLC Update-**Detroit Lakes, MN** (Sponsored by MNCPA) (952-831-2707)

Sept. 22-Technology-**Detroit Lakes, MN** (Sponsored by MNCPA) (952-831-2707)

Sept. 25-26-Accounting-

By the way, the lowest rate of audit for any business return is .30% for S Corporations, followed closely by .33% for Form 1065 used by partnerships and most LLC's. (We just thought you might want to know this!)

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## Basic Tax Issues

My partner Tim Winters is studying for the Enrolled Agents exam. He was commenting that "there are a lot of questions that we just let our software figure out". So, I thought I would pass some of these along (Answers at the bottom)

1. What is the standard deduction for a married couple filing jointly in 2006?
2. What is the personal dependency exemption for 2006?
3. What is the Section 179 limit for 2006?
4. What is the amount of excess investment income that will wipe out the earned income credit?
5. What is the over age 65 additional exemption for a single person?

**Bloomington, IL** (Sponsored by IAAI) (309-342-5400)

Sept. 26-27-1120/1120S/1065/  
LLC In Depth-**Reston, VA**  
(Sponsored by ASV)

Sept. 28-29-1120/1120S/1065/  
LLC In Depth-**Williamsburg, VA**  
(Sponsored by ASV)

**More Information is available**  
at: [http://www.taxspeaker.com/  
calendar.asp](http://www.taxspeaker.com/calendar.asp)

**Fall Seminars to Look For:**

Atlantic City 1040

Columbus, OH 1120 &  
1040

Cleveland, OH 1120 &  
1040

Fargo, ND 1120 & 1040

FT. Collins, CO 1040

Garden City, KS 1120

Georgia Accounting

Indianapolis, IN 1120 &  
1040

Lake of the Ozarks  
Accounting

Las Cruces, NM 1040

OK City 1120 & 1040

Reston, VA 1120 & 1040

Scottsbluff, NE 1120 &  
1040

If you get all of these right you need to get a life! If you get 1-3 right, pretty good, if you get #4 right-excellent, and if you get #5 right you probably cheated.

So here you go:

1-\$10,300

2-\$3,300

3-\$108,000

4-\$2,800

5-\$1,250 (It is \$1,000 if MFJ)

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Scranton, PA 1120

Tulsa 1040

Virginia Beach, VA 1040

Williamsburg, VA 1120 &  
1040

Wisconsin Dells 1120 &  
1040

**New Locations for 2006-  
Just Added!**

**Florida-January 2007**

Daytona Beach

Ocala

Kissimmee

Bradenton

Ft. Myers

***Enjoy your summer-we  
are off on our Alaska  
cruise CPE Seminar  
next week.***

**If you want to do the  
Alaska cruise CPE next  
year, please email us at  
[rhondap@hjcpa.net](mailto:rhondap@hjcpa.net) .**

**Next year's cruise will  
be in early August for 7  
days heading North to  
Anchorage from  
Vancouver, with an  
added land tour option!**

## Extreme Makeover Tax Problem

It is very, very rare that I ever sit down and watch TV, but when I do I try to watch 1 of 2 things-Indiana basketball or *Extreme Makeover Home Edition*. When 1 of our long-time friends emailed me with a comment regarding his client that had appeared on the show I went and found this little nugget from the IRS.

The show works in this way: the Producers pay the family \$50,000 for the use of their home for 10 days. Under the rules of Internal Revenue Code Section 280A(g) the rental of a home for less than 15 days is free of tax. The Producers further advised the families that the award is tax-free (Hint-producers shouldn't provide tax advice and tax experts shouldn't produce TV shows)

In IRS Information Letter 2006-0012 the IRS held that this was not actually rent, but rather, a taxable prize under Internal Revenue Code Section 74(a) which says that prizes include amounts received from radio and television giveaway shows.

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**All live seminars include an industry-leading subject-tabbed reference manual, highlighter, sticky notes and free hyperlinked e-*Manual*.**

## The HRA Advantage

The HRA is a more potent version of the medical reimbursement plan discussed in Internal Revenue Code Section 105(b). The differences, with 1 huge exception are:

1. A maximum reimbursement amount must be established.
2. The HRA may be established without providing health insurance.
3. The plan must be funded entirely by the employer-no flex, salary reduction or Cafeteria plan funding.
4. The plan, if stated in writing, may allow unused medical expenses in 1 year to be carried to future years.

We will be discussing HRAs, HSAs and more in our upcoming business entities seminars this fall.

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