



Tax Pro News

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Volume II, No. 5

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- **1040 In-Depth coming in November**

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IN THIS ISSUE:

- Ø **IRS attack on S Corporations**
- Ø **IRS outsourcing begins**
- Ø **Expired deductions & More**

S Corp Insurance Attack

- | On May 15, 2006 the IRS issued [Headliner No. 163](#) which stated that S Corporation health insurance provided for 2% shareholders and issued in the name of the individual rather than the corporation does not qualify for the SE health deduction on Form 1040, but rather as an itemized deduction only.
- | For health insurance paid by an S Corporation for 2% shareholders the IRS says that they are not treated as employees, but rather as partners in a partnership under Code Section 1372(a). Revenue Ruling 91-26 says that health insurance paid by a partnership for a partner is treated as a guaranteed payment in most cases, deductible by the partnership, but added specifically to that partner's income and qualified for the self-employed health insurance deduction on the 1040. If a shareholder is treated as a partner in a partnership for health insurance, the health insurance is deducted by the S corporation and added directly to the individual shareholder's W-2. Previously it had been assumed that this qualified the shareholder for the same SE health insurance deduction on the 1040.

Our live seminar recorded DVD's offer you the full manual, the free e-Manual, and the experience of a live seminar without travel issues. **Couldn't make our famous technology seminar? Order the DVD, recorded with a live audience in Garden City, Kansas 2 weeks ago!** How about a specialty topic- Clergy Tax or Reducing Health Care Costs? **Or our brand new Business Tax Seminar *In-Depth* recorded with a live audience last week in Oklahoma City.**

Exciting new software coming from Jennings Seminars this Fall- ***JLog*** an office workflow management program, and ***JTools*** a collection of our engagement letters, accountants reports, client letters and worksheets. Shipping December 1, these programs are available now for \$69 and \$89 each, and offer 1 year of

- I The new ruling says that “if the sole shareholder/ employee purchases the health insurance in his or her own name instead of that of the S corporation” then the corporation has not adopted a fringe benefit plan and that the special rules of 1372, treating that person as a partner in a partnership, do not apply! This means that if the insurance is purchased in the name of the shareholder rather than the corporation, the shareholder’s deduction for health insurance goes on Schedule A rather than on the front of Form 1040 as SE health insurance.

The IRS even goes further and says, in effect, that if the taxpayer lives in a state that does not provide group insurance plans to 1-participant businesses, too bad! As if small business owners don’t have enough problems even trying to get health insurance, along comes the IRS which then throws out the deduction. Try explaining this one to your client with the \$2,000 per month premium who can’t get group coverage. Thank you IRS!

The potential solutions to this problem are as follows:

- Lose the SE health insurance deduction and do not try to solve the problem, or
- Attempt to obtain a group health insurance policy with the subsequent problems of re-qualifying for insurance and hoping your client doesn’t live in a state prohibiting group plans for 1-participant businesses, or
- Ignore the IRS’ non-authoritative position, or
- Do an “end-around” and establish an HRA. Under IRC Section 105 and specifically IRS Notice 2002-45 (II) an HRA may reimburse for health insurance. An HRA established for a 2% shareholder is treated as a fringe benefit provided to a partner in a partnership under the special rules of Code Section 1372, meaning that health insurance reimbursed through an HRA would appear to qualify for the SE health insurance deduction on Form 1040. We use and recommend www.105concepts.com.

support.

October Seminars

- 10/3-4
Business Tax In Depth-Fargo
701-255-6502
- **10/6 Business Tax Update-Scottsbluff**
- 10/11 **Business Tax Update**
Scranton 570-347-3761
- **10/17-18 Business Tax In-Depth Cleveland**
- **10/19-20 Business Tax In-Depth Columbus**
- 10/23
Accounting Atlanta
- 10/25-26 **1040 In-Depth Fairfax, VA** 804-754-4121
- 10/30-31 **1040 In-Depth Las Cruces, NM** 505-255-9335

[Back to top](#)**November Seminars**[Back to top](#)**IRS Outsourcing**

The IRS awarded contracts to three firms to participate in the first phase of its private debt collection initiative. An estimated 40,000 returns will be assigned to the collection agencies by the end of 2006. The private firms are entitled to a 22-24% commission on amounts collected. IRS doesn't cost that much! The IRS began assigning uncollected liabilities to the firms beginning September 15.

The taxpayer may refuse to deal with the PCS and request Taxpayer Advocate Service assistance. The request must be made in writing, and a copy must be sent to the IRS.

At our fall 1040 seminars we will provide all attendees with a sample "opt-out" letter for clients to use to avoid dealing with the collectors.

[Back to top](#)**Expired Deductions**

In 2005 taxpayers had 3 options for deducting college costs in the form of 2 credits or the above the line deduction of up to \$4,000. The deduction will no longer be available in 2006 under current law. The 1st 2006 Tax Act did not restore this deduction, nor did the pension act, and Congress failed this week, before adjournment, to extend it **or** the educator expense deduction of \$250. Barring a lame duck fix-it bill these deductions are gone for 2006.

[Back to top](#)**Hurry Up!**

The Pension Protection Act of 2006 signed into law on 8/17/06 immediately allows IRA owners aged 70 ½ and older to make tax-free IRA contributions of up to \$100,000 per year to a charity if the funds are transferred directly from the IRA to the charity. **The special rule is effective for the period of January 1, 2006-December 31, 2007 so act fast!**

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- **11/2-3 1040 In-Depth Indianapolis SPECIAL PRICING of \$239!!!**
- 11/6-7 1040 In-Depth **Tulsa** 405-677-2151
- **11/8 Business Tax Update Garden City, KS**
- 11/9-10 1040 In-Depth **Ft Collins, CO**
- 11/13-14 1040 In-Depth **Scottsbluff, NE**
- 11/16-17 1040 In-Depth **OK City** 405-677-2151
- 11/20-21 1040 In-Depth **Cleveland**
- 11/28 1040 Update **Wisconsin Dells** 714-425-7521
- 11/29 Business Tax Update **Wisconsin Dells** 714-425-7521
- 11/30-12/1 1040 In-Depth **Williamsburg, VA** 804-754-4121

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1040 In-Depth

Our 2006 1040 In-Depth 700 page!!! industry-leading reference manual includes free hyperlinked IRS research software, free *FastTaxFacts* from the Tax Book as well as topic-oriented index tabs in a Forms-Oriented layout.

It also includes special chapters like Military Tax, Clergy Tax, Reducing Health Care Costs, Retirement, IRS Practice, Practice Management and much, much, much more-***clearly the best manual at the best price in the seminar industry!***

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Thanks for your attendance already this year. We have had sell out crowds in Minnesota, Alaska and Indianapolis, record attendance at state sponsored seminars in Illinois and Minnesota, and our self-sponsored seminars are seeing over 100% increases in attendance from last year. Thanks again.

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