



A Look Inside This Month's Issue

August 2011

- > The Debt Deal—Its Potential Tax Impacts1
- > Payroll Tax Examination.....2
- > Innocent Spouse Relief Ruling.....2
- > Corporate Tax Return Preparation.....2 & 3
- > Three Questions.....3 & 4
- > August's Featured Staff Member.....4

Absolutes

www.absoluteplanning.com

Planning for Death and Taxes

Our Mission Statement

To Provide Tax and Business Consulting Services that Drive Innovative Wealth Building Solutions

The Debt Deal—What it Means for Individuals & Businesses

The Budget Control Act

Earlier this month Congress, the Senate and the President approved the Budget Control Act to avoid a potential default. This new act calls for a bi-partisan committee to create various avenues of debt reduction which will be passed on to Congress for approval before the year's end. Specific tax cuts or raises were not immediately addressed with this act. New changes affecting both individuals and businesses will most likely be made in the near future as a result of the activity in Washington.

What's Included?

Spending was one of the main issues addressed between both political parties. Roughly \$1 trillion will be slashed over the course of the next 10 years. New revenue methods were not addressed – yet.

The bipartisan committee will be responsible for trimming an additional \$1.5 trillion from the federal budget over a span of 10 years. The notion that new revenue methods must be created to manage the nation's debt has sparked a few different tax proposal ideas.

Potential Tax Impacts

President Obama has indicated he intends to support tax cuts from the Bush-era for middle to lower income families. These tax cuts are set to expire after 2012. Taxpayers not considered middle or low income would not be privy to these extended cuts. While no

new tax provisions have been cemented, it is clear that major changes are on the horizon.

Business Impacts

Some of the notable potential tax changes include a standard corporate tax rate. One lower rate would be assessed and certain deductions would be removed to raise revenue for the government.

Individual Impacts

For individuals, the committee proposes changing the current federal income tax rates and creating three brackets starting at 8, 14 and 23 percent. Other key provisions include potentially eliminating the alternative minimum tax and repealing deductions such as charitable contributions, home mortgage interest and more.

On The Horizon

For both business and individuals, the current tax expenditures allowed could be dramatically scaled back. While these specific provisions have not been signed into law, it is clear that new tax rules will be implemented over the course of the next few years.

Exactly who and what will be affected by these changes will certainly be one of the principal issues raised in the coming elections.

As new tax legislation and proposals are brought up in Washington, we will continue to discuss the impacts at both the individual and business level.

Houston

790 W Sam Houston Pkwy N, Ste 202
Houston, TX 77024
Phone: (713) 341-2740
Fax: (713) 341-2750

Austin

12117 Bee Caves Rd, Ste 140
Austin, Texas 78738
Phone: (512) 263-8802
Fax: (512) 263-8804

North Houston

616 FM 1960 West, Ste 475
Houston, Texas 77090
Phone: (713) 341-2740
Fax: (832) 249-7418

Payroll Tax A Growing IRS Issue

Enhanced Efforts Begin for Payroll Tax Deficiency

The IRS is cracking down on firms skirting payroll taxes. Over the next few years the agency will randomly select a little more than 2,000 companies annually to audit for payroll tax deficiencies. It hopes to identify misclassified workers and bring in additional revenue from unpaid taxes. The IRS wants to determine approximately how much in payroll taxes the government is not receiving from companies.

Contractor and Employee—What's the Difference?

In the May edition of the Absolutes newsletter we outlined the differences between an employee and a contract worker. The IRS defines an independent contractor as someone who performs work or services and “if the payer has the right to control or direct only the result of the work and not what will be done and how it will be done.” Alternatively, generally an individual is classified as an employee if the employer can determine “what will be done and how it will be done.” There are other considerations that go into this classification as well.

Program Details

This study will last three years for the agency. But it doesn't end there – the IRS has already acknowledged that three years and 6,000 company audits may not be enough. Unpaid payroll taxes are known to be treated with extra scrutiny by the agency. Additional time and an uptick in the number of small and large companies audited for this specific program could increase.

Bottom line: The IRS is continuing its reach to actively seek out those individuals and companies who may be withholding payroll taxes.

IRS changes decision on Innocent Spouse Relief

There's good news for individuals seeking innocent spouse relief. The IRS recently changed its decision regarding the deadline for spouses to seek relief.

Previously, the IRS gave taxpayers two years from the date the agency began the collections process to seek relief.

After examination of this rule by members of Congress, Senate and the IRS Taxpayer Advocate, the IRS has officially dropped its initial ruling.

Certain taxpayers are also able to seek relief who may have been previously denied.

Corporate Tax Return Preparation

Tax preparation is one of the principal activities that takes place at the firm. Our tax preparers specialize in business as well as individual tax preparation.

Spotlight on Business Taxes

Business tax preparation is one of the main tax topics the firm handles. From start-ups to small businesses to large corporations, the tax team manages federal and state returns for a variety of different entities.

General Scope

The tax firm can oversee the preparation of both federal and state level returns that may be required for a business. Often, clients will have both their personal and business taxes completed by the same tax firm. This can make the process of gathering information to complete each type of return more manageable for everyone. In addition to completing annual returns, the tax team assists businesses in lowering their taxes and providing guidance

continued on page 3 . . .

Corporate Tax Return Preparation

continued from page 2 . . .

with tax-related decisions.

Tax Return Work

Some of the types of tax returns that are completed each year for various entity structures include:

- > C Corporations
- > Limited Partnerships
- > General Partnerships
- > Professional Associations
- > Limited Liability Companies
- > Professional Limited Liability Companies
- > Disregarded Limited Liability Companies
- > Limited Liability Partnerships

The tax team can help you and your business plan ahead and become more tax efficient. Our professionals can assist with the preparation of annual returns regardless of the size and scope of your entity.

To speak with one of our tax professionals regarding your business tax preparation, please call our office at (713) 341-2740.

Three Questions

One of the most basic questions that any planning professional hears is: "I want to start my own business; where do I start?" A discussion with your attorney and accountant is always a great place to begin, but you can get the most out of those meetings by asking yourself some questions beforehand.

1. What kind of structure do you need for your business?

Structuring choices are always vital when starting a new business. You need to ensure that you are protected from potential liability to the maximum extent possible. Additionally, the choice of structure that you make can have dramatic effects on your tax consequences. The same business, structured in four different ways, can have four completely different tax results. The choice of structure will be the foundation of your new venture, so it is vital to get all of the professional advice you can when making the choice. It can be helpful to familiarize yourself with different structures, such as Corporations, LLCs, and Limited Partnerships prior to your meeting, so that you can have a more productive dialog with your planning team.

2. Does your bank meet your needs?

Banks offer the same basic services, but the level of personal attention and the focus of a particular bank can have a dramatic impact for an entrepreneur starting a new venture. Does your bank provide a "big" impersonal experience? Do you have an opportunity to build relationships with personnel at the bank, or do you never see the same person twice?

continued on page 4 . . .

. . . continued from page 3

Is your bank focused on the needs of entrepreneurs, or will you feel like a tiny fish in a very large pond? Is your banker interested in helping you find solutions to your needs?

3. Who will be keeping the books?

Ensuring that you keep track of your financial records is vital for any new business owner. You cannot keep things running day to day, much less plan for future success, if you don't keep track of your books. For some business owners, this will mean learning to use bookkeeping software and learning to keep their own books. For others this means hiring a bookkeeper. If a business owner decides to hire a bookkeeper, this opens up another whole line of questions. Bookkeeping is an extremely sensitive function, and you need to ensure that you have someone in that role who is as competent as they are trustworthy. It may also be prudent to arrange for your accounting and tax preparation professionals to provide some level of supervision for your bookkeeper.

These are some basic questions, and many more always follow the start of a new venture. Consultation with planning professionals is, of course, a vital step to starting a new business, but it is always wise for a business owner to stay engaged with the entire process, and post the right questions, both to their planning team, and to themselves.

Written by Associate Attorney, James Nestor

August's Featured Staff Member

Gene McCain, a tax controversy attorney for the firm, has been recognized as this month's featured staff member. Gene earned his B.B.A. in Accounting from Hardin-Simmons University in Abilene, Texas. He received a J.D. from South Texas College of Law and he is also a C.P.A.

Gene handles tax controversy cases for clients, which includes dealing with the IRS and State governments in audits, installment agreements, offers in compromise, appeals and litigation. His 20+ years of experience also includes wills and probate, entity structuring, tax and estate planning and preparation and review of a wide variety of tax returns. Please join us in congratulating Gene for his superior work and commitment to helping clients and their tax controversy matters.

How can our team of professionals help you or your business? We specialize in the following services:

Asset Protection
Wealth Preservation
Buy-Sell Agreements
Business Sales
Residential Mortgages
Business Acquisition
Personal Tax Preparation

Probate
Wills & Powers of Attorney
Business Succession Planning
Family Limited Partnerships
Commercial Mortgages
Tax Controversy
Corporate Tax Preparation

Tax & Estate Planning
Business Control
Business Organizations
Trusts
Asset/Debt Restructuring
Estate & Gift Tax Preparation
Partnership Tax Preparation