

Carr Talks

TAXLOGIC



WEEKLY SUMMARY

The stock market has been on a tear for the past 3 weeks. The Euro Zone appears to be getting their act together. Can it be that easy, is the worst behind the global economy? I doubt it. We are in for a long period of volatility while banks recapitalize and the excess debt overhang is unwound.

But US employment is still weak and consumer confidence is best described as tentative at best.

The administration conceded defeat on a significant part of the new Health Care legislation, admitting that it would never be financially viable and that it had underestimated the cost of the Long Term Care option. Given these programs have not even started, anyone want to hazard a guess at what the ongoing cost of the new Health Care Plan will eventually cost?

At the same time that one program was experiencing a cost blow-out, the new 10% tax on indoor tanning has brought in 25% of the expected revenues. IRS had various excuses as to why it failed to collect the expected revenues, the main one being they didn't know how many businesses would be responsible for the tax.

This weeks' question is, "Do you support Cain's 9-9-9 tax plan?" – click the link below.

<http://tinyurl.com/3sa9kqv>
(Takes 15 seconds and is anonymous, results next week)

Last week 66% of respondents said that Greece would default next year.

The Cohen Rule – can you estimate your expenses?

Anyone who has filed a tax return has probably heard the axiom "if you don't have records, the IRS will disallow the expense." But is it accurate?

George M. Cohan was a 1920's vaudevillian who is probably most known to modern audiences as the man who wrote the song "I'm a Yankee Doodle Dandy.", but Mr. Cohan is better known for being the plaintiff in one of the most famous and enduring tax cases in American history.

Mr. Cohan was audited and unable to produce receipts that showed the actual amount he spent for certain business expenses. The IRS said if you can't prove how much you spent, you don't get the deduction.

So Cohan tapped dance to Court . . . and he won.

In short, the Cohan Rule, as it has come to be known, stands for the proposition that taxpayers may use estimates when they can show that there is some factual foundation on which to base a reasonable approximation of the expense (i.e., when they can prove that they had made a deductible expenditure but just cannot prove how much that expenditure was). Remember if you rely on Cohan (which means your records are incomplete) expect the IRS to put up a fight as to the proper amount of the allowable expense.

Here is what then Circuit Court Judge Learned Hand said in an opinion that has been part of our common law for more than three quarters of a century:

In the production of his plays Cohan was obliged to be free-handed in entertaining actors, employees, and, as he naively adds dramatic critics. He had also to travel much, at times with his attorney. These expenses amounted to substantial sums,

but he kept no account and probably could not have done so. At the trial before the Board he estimated that he had spent eleven thousand dollars in this fashion during the first six months of 1921, twenty-two thousand dollars, between July first, 1921 and June thirtieth, 1922, and as much for his following fiscal year, fifty-five thousand dollars in all. The Board refused to allow him any part of this, on the ground that it was impossible to tell how much he had in fact spent, in the absence of any items or details. The question is how far this refusal is justified, in view of the finding that he had spent much and that the sums were allowable expenses. Absolute certainty in such matters is usually impossible and is not necessary; the Board should make as close an approximation as it can, bearing heavily if it chooses upon the taxpayer whose inexactitude is of his own making. But to allow nothing at all appears to us inconsistent with saying that something was spent. True, we do not know how many trips Cohan made, nor how large his entertainments were; yet there was obviously some basis for computation, if necessary by drawing upon the Board's personal estimates of the minimum of such expenses. The amount may be trivial and unsatisfactory, but there was basis for some allowance, and it was wrong to refuse any, even though it were the travelling expenses of a single trip. It is not fatal that the result will inevitably be speculative; many important decisions must be such. We think that the Board was in error as to this and must reconsider the evidence.

Here's the Cohan opinion in its entirety [Cohan vs. Commissioner, 39 F. 2d 540 \(2d Cir. 1930\)](#).

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,635.80	\$1,681.80	\$1,700.00	\$1,600.00
Oil	\$82.98	\$87.28	\$90.00	\$120.00
Dow Jones	11,103.12	11,644.49	12,000.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.10 %	9.10 %	9.10 %	9.50 %



Services that we provide:

- Tax preparation, individuals, corporations, LLC's, partnerships, overseas residents, non resident aliens, prior year returns
- Annual minutes for your company
- Ability to use QuickBooks and Quicken files, Online QuickBooks
- Certified QuickBooks Pro Advisor
- Monthly accounting – we will prepare your financial statements, bank reconciliations and depreciation calculations
- Payroll preparation and filing – we offer turnkey payroll solutions
- Human Resource Management – we can prepare an employee handbook for your particular situation
- Entity selection and compliance with various State and Federal regulations
- Efficient tax strategies – we can **recommend** the most appropriate strategy for your particular situation
- Financial planning - we can give you appropriate financial planning and budgeting information
- Forensic accounting – we can investigate “white collar” crime committed against you, or your business
- Valuation services – we can assist with the valuation of your business and investment assets for specific applications, estate planning, divorce, buy and sell agreements

New for 2010 tax year in 2011:

- You will be able to check on the status of your refunds www.irs.gov
- We will store your source documents online in a PDF file format for easy access in future years
- Electronic filing of Sub S and C Corporations and Partnerships
- We will be able to file multiple state returns this year – in the past we were limited to the number of state returns we could file for you
- Medical records – we are giving you the opportunity to have all your medical records in one secure location – www.allmymedicalrecords.com
- Charitable donations. Maintain your charitable deductions during the year at www.allmydeductions.com. In that way whether you use cash, credit card, debit card, checks, or donation of clothes etc you won't miss any deductions. Use our convenient list of accepted valuations to value your donated goods to Goodwill, Salvation Army, church, etc
- Entity selection – we have extensive information on company formation, whether it is an LLC, S Corporations, or C Corporations. Once you are incorporated we will walk you through the setup process
- Federal Identification applications – we can file and receive federal identification numbers – all on line for your convenience
- On line legal forms – we have the ability to prepare basic legal forms online
- Payroll preparation – we offer a comprehensive, competitively priced online payroll preparation service



Payroll Processing Services

You provide:

- Hours worked and employment information and forms for the staff. You can email, (Karen@psspayroll.com) fax (580) 286 5818 or call toll free (800) 937 8868 to give us this information

We will provide the following services:

- No long term contract
- Payroll preparation for your employees and direct deposit of payroll checks and ACH transfer of payroll amount
- Payroll calculation within 24 hours
- Compliance with all government and state withholdings requirements
- Detailed invoice for all payroll related costs

Each Pay Period you will get:

- Payroll stubs for employees
- Management report detailing cost breakdown but only one amount to pay for all federal and state taxes
- Direct deposit of net payroll

Each Quarter

- We will file all required state and federal quarterly reports

What we need to get started:

- W4's for each employee
- I-9's for each employee
- Direct deposit information for the employees
- Bank details for the company's payroll account
- Your Federal ID number for the business