

# Carr Talks

## TAXLOGIC



### WEEKLY SUMMARY

As usual the events of the past week were not foreseeable even three weeks ago. While the self immolation of a university-educated fruit stall vendor in Tunisia, at the beginning of the year heralded in the toppling of an autocratic regime, who would have thought that Egypt could be on the brink, after 30 years of iron fisted repression, be itself on the edge of falling. Egypt, who is one of only two Arab states that recognize Israel, and is one of the few countries in the area that is sympathetic to the American's view. It may be influenced by the \$1.5B the US pours into the country.

The financial markets reacted negatively to the turmoil and the renewed instability in the area. There was little in the way of financial news this week. The decline in the housing market and increasing numbers of foreclosures continued unabated.

What did come out this week, from the Congressional Budget Office was that Social Security will be broke by 2035. That is only 24 years away. At the same time, we learned that the current year Federal Budget deficit will be \$1.5T. The red ink is out as far as the eye can see. There are only free real options left. Cut spending and programs, (which ones) raise taxes, (on whom) or grow the economy (what tricks are left?).

## Finance and Taxes

### SUB CHAPTER S SALARIES

As a big promoter and supporter of S Corporations it was with interest that IRS came out with a victory in a recent wage and salary compensation audit against a CPA. Taken on obviously as a test case, David E. Watson P.C. v. U.S. revolved around Mr. Watson's low pay as the sole owner and shareholder relative to his companies profit.

He took \$200,000 from the business in "dividends", "draws", "distributions" and paid himself \$24,000 a year. IRS challenged the compensation arguing that the wage was excessively low, and that he had unreported Social Security and payroll taxes amounting to more than \$20,000 over the two years.

The average pay for S Corporation owners was \$38,000 recently. The judge in the case found in favor of the IRS, but not for the full amount, \$91,000.

This issue is not going away. Last year Congress came very close to taxing all profit from certain S Corporations at the full 15.2% FICA Medicare rates. Such a

change would have a profound effect on the tax liabilities of our clients.

What is a fair ratio of profits to pay? There isn't one answer. A company with substantial capital or assets, such as a manufacturer, often is able to justify lower pay than one selling personal services like a law or accounting firm.

In Mr. Watson's case, his revised compensation came to only about 40% of his total return from the company.

We work with each client to ensure that they report an amount of wages that will pass muster with the IRS computers that are scoring returns for examination.

In addition, we have prepared and are working on additional expenses, categories and types of passive income that will be able to be distributed to the taxpayer legitimately from the company – income that will not be subject to FICA and Medicare taxes, in spite of any changes that Congress can make the K1 distribution amounts.

The upshot: Pay can vary—but it can't be too low.

## Technology

IRS has launched IRS2Go, a smartphone application that lets you interact with the IRS using your mobile device. IRS2Go reflects IRS' recent attempts to use technology to get information to the taxpayer through social media outreach initiatives.

You can check the status of your federal income tax refund using IRS2Go. Simply enter your Social Security number, which will be masked and encrypted for security purposes, then select your filing status and enter the amount of your anticipated refund from your 2010 1040.

If you filed electronically the information should be available within a few days, however if you filed on paper, the system may take 3 – 4 weeks to update.

Finally, you can use IRS2Go to sign up to follow the IRS Twitter news feed, @IRSnews.

If you have an Apple iPhone or iPod, you can download the free IRS2Go app by visiting the iTunes app store. If you have an Android device, you can visit the Android Marketplace to download the free IRS2Go app.

[www.carr.co.nz/stats](http://www.carr.co.nz/stats)

	Last Week	End of Week	Next Week	12/31/2011
Gold	\$1,342.40	\$1,339.10	\$1,310.00	\$1,600.00
Oil	\$88.11	\$89.49	\$92.00	\$120.00
Dow Jones	11,871.84	11,823.70	11,900.00	12,250.00
Prime Rate	3.25 %	3.25 %	3.25 %	4.00 %
Unemployment	9.40 %	9.40 %	9.40 %	9.50 %