

How Home-Based Businesses Can Avoid Giving Uncle Sam More than His Share

Contributed by Darren Oliver

How Home-Based Businesses Can Avoid Giving Uncle Sam More than His Share

By Darren Oliver

With the rush to file your taxes by April 15th, you probably did not consider the possibility that you overpaid. According to the General Accounting Office, in 1998 alone, there was \$311 million paid unnecessarily to the IRS. Do not count on the IRS to tell you if you have overpaid because they are not required to but you can file an amended return for up to three years.

Chances are, you either prepare your business taxes yourself or have your tax preparer or CPA does them. There a number of issues surrounding either tax preparation method, which can result in your tax liability being calculated as higher than it actually is including missed deductions, numerous changes in tax laws or being given incorrect advice.

As a home-based business professional, there are a number of deductions you are entitled to which many tax preparers often miss. For example, if you run a home office you are entitled to deduct expenses for the percentage of square footage the home office is occupying. Expenses include the combined total of mortgage interest, property taxes, utilities, repairs, etc. For example, if 250 square feet of a 1,000 square foot house is being used for a home office, you are entitled to deduct a quarter of your total expenses.

Although some deductions may seem minor, over an entire year, they can add up to thousands of dollars that you are unnecessarily paying the IRS. That is money that you could be using to grow your business.

Karen McClafflin, owner of home-based Secret Canyon Realty in Colorado Springs, CO, was able to recover \$11,000 when her tax preparer failed to include home office and automobile deductions in her past returns.

Another area, which causes many business owners to overpay, is being given incorrect advice by their CPA, tax preparer or even the IRS directly. In a poll performed by Money Magazine, the average tax preparer, prepares an average of 480 returns between February 1st and April 15th, that is a lot of returns in a relatively short amount of time which makes it difficult for your return to get the time and attention it deserves. This same poll also found there was an average discrepancy of 300% between what the tax preparers said was due and what was actually due. Moreover, in a poll of 50 professional tax preparers, consisting of 10 basic tax questions, none answered all 10 questions correctly and only 34 got at least half correct.

This problem does not extend to just tax preparers or CPA's. In the IRS's 2001 assessment of their own 544 call centers, they found that 50% of the time, their representatives gave incorrect or insufficient advice. Whether you do your taxes yourself and had to call the IRS for clarification on an issue or your CPA did, odds are the answer was not accurate.

The United States tax law is one of the most complex in the world. Not to mention, tax laws change every year and have changed tremendously in the last couple of years. Even the best tax preparer, CPA or even IRS representative can easily make a mistake or, forget to use an exemption which could reduce your tax liability.

If you have not yet filed your taxes, it is a good idea to get a second opinion from an independent source. The extra money and time spent in doing this could save you thousands. Look for someone or a company who:

- Has sufficient years preparing home-based business tax returns
- Prepares less than the average number of returns between January and April so that your return gets sufficient time and attention.
- Have had clients get a second opinion. In addition, talk to those clients to get there first hand insight.
- Is willing to pay for a second review of your tax returns to ensure accuracy.
- Is willing to take MSN's online Tax IQ Test at http://moneycentral.msn.com/investor/calcs/n_taxq/main.asp. Although designed for consumers, this test contains basic tax information that even junior level tax preparers should know.

Just as you trust a surgeon with your life, you trust this individual or company with your money and confidential information. Be highly selective and do not be afraid to put them through a rigorous qualification. If they are not willing to participate in your qualification then either they do not know their stuff or, your business is not that important to them.

If you already filed your taxes or think you might have missed out on deductions, have been given bad advice or failed to take advantage of a tax law change which could reduce your liability for previous tax years, what can you do? The good news is that by law, the IRS is required, for up to three years, to review your returns and records as many times as needed to find errors. You have the same three years to get a second opinion and file an amended return. In fact, in 2002, 3.3 million taxpayers filed an amended return.

Samuel Rowley, owner of Muffler Masters in Colorado Springs, was able to recover \$14,500 through the filing of an amended return when it was found that he overpaid FICA and payroll taxes.

You may worry that an amended return will trigger an audit however; the IRS itself admits this is not the case. In 2002 alone, 3.3 million taxpayers filed an amended return. The IRS is not the big, bad agency we used to know. In fact, statistics show that audits are down and continue to decline.

Businesses throughout the U.S. overpay their taxes to the tune of billions each year and your money could be part of the billions that is overpaid. When it comes to your taxes, always get a second opinion to ensure you are not paying more than you should and, you can even hit pay dirt by looking back.

Darren Oliver is the Chairman and COO of Tax Recovery Systems (TRS) which he founded in 1995. Through their network of sales partners and franchisees, TRS is dedicated to recovering overpaid taxes for home-based and small to medium sized businesses all over the U.S. This commitment has resulted in an average \$8,000 recovery for over 60% of qualified reviews. For more information, visit www.trs-esp.com or call (800) 714-3504.