

JOSEPH B. MIHALOV, CPA, P.C.
Certified Valuation Analyst

P.O. Box 1099
Valparaiso, IN 46384

Office (219) 464-1011
Fax (219) 462-1916
www.jbmihalov.com

NEWSLETTER
AUGUST 2005

EXTENDED FORM 1040s

August 15 is the extended due date for all U.S. individual income tax returns. As always, if your extended return has a balance due, you will owe IRS and state penalties and interest. Remember that the extension only covers the filing of the return not the payment of the tax.

THE IRS TO AUDIT SUBCHAPTER "S" CORPORATIONS

The IRS announced that it will begin auditing Subchapter S corporations for taxable years 2003 and 2004. The IRS fears that too many taxpayers are using these entities to "lower" their taxes and that the methods used to do so are not "kosher."

It has been reported many Subchapter S owners choose not to take wages, or take wages that are too low for the work the owners perform for their corporation. For example, an owner takes no salary but draws \$50,000 as a dividend thereby avoiding FICA and Medicare taxes of \$7,650. Needless to say, the IRS will recharacterize the draws to salary/wages and impose the employment taxes plus interest and penalties. So if you fall into this category, now is the time to document why your salary is nil or next to nothing in your corporate minutes. Other items the IRS will be looking at are company vehicles, travel, entertainment, and other items considered personal living expenses and not tax deductible.

SHOULD YOUR TRUST BE NAMED BENEFICIARY OF YOUR IRA?

Many of you have attended seminars on avoiding probate through the use of a trust. Once established, the trust should be funded with assets otherwise you wasted your money by creating the trust. A question arises as to whether the trust should be named beneficiary of your IRA(s). Since a trust is not an individual, the IRA minimum required distribution rules state that the IRA must be paid out within five years or over the IRA owner's remaining life expectancy, depending on when the account owner dies. Some relief is possible from this rule if the trust meets certain requirements. If you find yourself in this situation, contact your trust attorney to see if the trust he or she set up for you meets the IRS trust requirements.

ALTERNATE MINIMUM TAX

What started out as a good idea, taxing millionaires paying no income taxes, is now turning into a nightmare for ordinary hard-working Americans. The alternate minimum tax is in addition to the regular income tax. For example, state income and real estate taxes claimed as itemized deductions can subject you to the additional alternate minimum tax. It is time we American taxpayers bombard our elected federal representatives to get rid of this tax immediately.

THANK YOU FOR YOUR CONTINUED BUSINESS AND REFERRALS.

2601 Chicago Street #A
Valparaiso, Indiana 46383