

Alvin Caballero, CPA

April 2018

The Main Street Accountant

...For all your main stream needs

Welcome to the April 2018 edition of the **The Main Street Accountant**. Already four months into the new year and the personal tax deadline looming ahead; how time flies!

This month's newsletter begins with an article that discusses a painful but relevant topic: audits. There are many different types of audits and we clarify how to avoid them. The newsletter continues with a topic that is the number one priority on our firms list, which is keeping you and your identity safe!

The next few articles cover business trends in 2018, how to assert yourself as the leader in your organization, and 3 tips to help you ask AWESOME interview questions to hire the right person.

Enjoy this month's edition!

Until next time,

Alvin Caballero, CPA



Audits Are Painful: How to Avoid Them

Let's start by talking about IRS audit statistics. According to the Internal Revenue Service Data Book for 2016, almost 1.2 million returns

were examined for TY 2016. The data goes on to state that of the almost 1.2 million returns examined, many of the audits, 70.7% were done via correspondence, meaning that the IRS sent the taxpayer a notice or a letter requesting additional information. Correspondence audits are the least invasive of the IRS audits. The remaining 29.3% were conducted in the field. Field audits are more serious because an agent goes out to your business location and performs the audit. The IRS conducts four primary types of audits. The audit types are as follows:

- Correspondence Audit
- Office Audit
- Field Audit
- Random Review

As mentioned previously, with the correspondence audit, the IRS will send you a letter or notice asking for an explanation or requesting more documentation about something that you reported on your tax return. The office audit consists of you having to go to a local IRS office and meeting with an examiner to discuss the return(s) in question. The field audit is the most serious of all the audits. This is because the situation could not be resolved via correspondence or via an office visit. The field audit requires that the agent pay you a visit at your place of business. If you're like most people, I am sure that you don't want the IRS

snooping around your business. The random review audit consists of the IRS randomly selecting a return to look over. They are not looking for anything, however, they hope that they will find something.

So, how do you avoid getting audited? In brief, our advice is to err on the side of caution, rather than not. The IRS uses the Discriminate Income Function (DIF), a computer program that compares your deductions with others in the same income bracket. Other than randomly selecting your return for an audit, this is part of the process of selecting a return for an audit. Note that you are a likely target if you are in a cash business such as a bartender, hairdresser, or waitress. In addition, if you are a Schedule C filer, you are a likely target as well. You may want to consider forming an LLC or becoming incorporated. For the most part, small businesses rank high on the list of favorites for IRS audits. If you're not keeping good records, you might want to start.

There are numerous ways to lessen your chances of being audited. Some of those ways are as follows;

1) Use exact numbers. Don't round to the nearest even dollar amount. Doing so gives the IRS the impression that you just randomly wrote some numbers down. Example, if the expense amount is \$476, don't round to \$480 or \$500.

2) Know what the IRS often questions. Some common red flags that can trigger an audit are bad debt expenses, home office deductions, medical expenses, casualty losses, travel, meal, and entertainment expenses.

3) Leave no blank spaces. Be sure to answer every

Continued on page 2

TAX CORNER

Protecting Your Identity is Our Top Priority

When it comes to filing taxes, we have found that there are two different types of filers, the motivated filers who have kept all their records organized and as soon as they get their last tax document, they file their return, and then you have others who simply hate the thought of having to deal with taxes. These are the procrastinators, they will drag their feet and wait until the very last minute to file their return. Procrastinators usually end up filing an extension, just so that they can avoid dealing with their taxes just that much longer. Whether you are a motivated filer or a procrastinator, the following tips should help minimize the stress of dealing with your tax matters.

- Protect Your Identity.
- Be organized.
- Maximize Retirement Contributions.
- Maximize credits and deductions.
- Electronically file.

In our opinion, from the above list, protecting your identity is the most important. As of February 29, 2016, the IRS had identified and confirmed 31,578 fraudulent tax returns. Because of its identity theft filters, the IRS prevented the issuance of \$193.8 million in fraudulent tax refunds.

With identity theft in general on the

rise, this is not just something that you should focus on during tax time. This is a matter that you need to focus on year-round. Properly discard mail that shows your name, address, and other personal information.

Shredding is the easiest way to accomplish this. If you don't want to deal with a shredder, cut the mail with scissors. Make sure that online sites that you are entering personal information into, are legitimate sites.

While legitimate sites are not off limits to being hacked, legitimate sites tend to have more safeguards in place to protect consumer information.

Regarding filing taxes, if the IRS has issued you an Identity Protection Pin, which is a six-digit number assigned to eligible taxpayers which helps prevent the misuse of their Social Security number on fraudulent federal income tax returns, you will need to use that PIN every year to file your tax return. Note that the IP PIN changes every year, which means that the PIN you used on last year's tax return is not valid for this year's tax return. If you don't receive the new IP PIN in the mail, you will need to go to the IRS website (IRS.gov) to retrieve it.

Remember that an ounce of prevention is worth a pound of cure.



Painful Audits

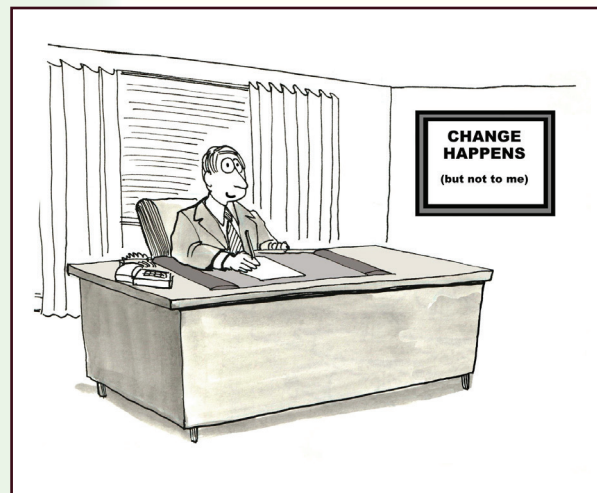
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question and fill in every line. Using a dash or a zero works. You don't want the IRS assuming anything.

4) Filing an amended return. Filing an amended return will not only put the spot light on the amended return, but it might put the spot light on the original return as well. So, you might want to try to get the return right the first time.



While taking all the precautions in the world will not guarantee that you will not get audited, remember that you should keep thorough, organized records and err on the side of caution. If you are chosen for an audit, you have organized records and you can substantiate your deductions (prove the deductions), you should be able to get through the audit with ease and minimal stress. ♦



Quotes:



"The expert in anything was once a beginner." — Anonymous

"Don't get too deep, it leads to over thinking, and over thinking leads to problems that doesn't even exist in the first place." — Jayson Engay

"Look deep into nature, and then you will understand everything better." — Albert Einstein

"Always listen to experts. They'll tell you what can't be done, and why. Then do it." — Robert A. Heinlein, Time Enough for Love

"This life is like a swimming pool. You dive into the water, but you can't see how deep it is." — Dennis Rodman



What Are Small Businesses Up To In 2018?

A survey of small-business owners by Microsoft Store looked at the trends. Business owners plan to:

- Introduce new products/services 37.6 %
- Launch a new marketing strategy 35.7 %
- Give back to the community 33.9 %
- Partner with other small businesses 18.9 %
- Find a mentor 6.2 %

What are they worried about this year?

Technology heads the list:

- Staying ahead of changes 49 %
- Budget constraints for technology 21%
- Managing and protecting data 10 %

INTERVIEW QUESTIONS FOR NEWBIES AND VETERANS

Looking to bring on new team members? Your success depends on traits and talents of your new team members that may not be obvious from their resume.

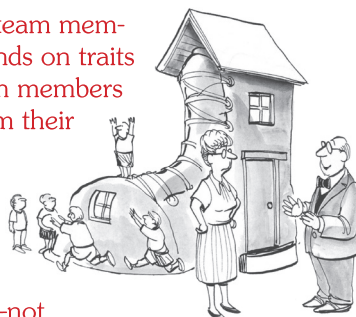
Follow this advice:

• Identify their real skills and strengths.

Target what they're best at—not just the classes they got good grades in, or the jobs they did successfully, but the underlying skills that each thing on their resumes represents: planning, creativity, persistence, and so forth.

• **Find their passion.** Employees will perform best at work they feel strongly about what the organization believes in and stands for. Make sure that they will be a great attribute in supporting the values of the business.

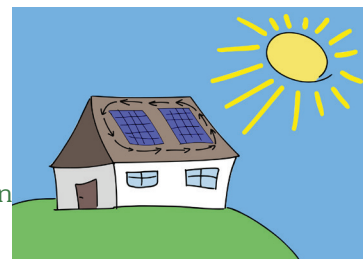
• **Encourage them to share.** Ask them a lot of questions and encourage them to share everything that they can do. Assure them that you want to hear about all of their accomplishments...professional and personal.



"If you can raise twelve kids in a shoe you can manage our office."

This Substance May Revolutionize Solar Power.

Solar power is expanding at a breakneck pace thanks to breakthroughs in a crystalline material called *perovskite*. Perovskites can darken windows on sunny days and clear them on cloudy ones. Now scientists are using them to generate electricity. Perovskites are a combination of elements with a specific crystalline structure.



According to the AAAS website, solar panels made of perovskites are almost as efficient at transforming sunlight into electricity as the best modern solar panels. The best perovskite panels can convert 22 percent of sunlight energy into power, compared with 25 percent produced by standard silicon panels—and the building materials for perovskite are cheaper than those for today's solar cells, making them a prime candidate for smart windows that can also act as solar panels.

Brain Teasers Can You Figure Out The Answers To These Riddles?

- What has 13 hearts, but no other organs?
- Though it is lighter than a feather, the strongest man in the world can only hold this for a few minutes. What is it?
- A man shaves at least 10 times a day but still has a beard. How can this be?
- Two fathers and two sons were walking in an orchard. They found three apples and each man took one. How is this possible?
- It loses its head in the morning, but gets it back at night. What is it?



Answers: • A deck of cards. • Breath • The man is a barber • They are grandfather, father, and son. • A pillow

Are You In Need of a Qualified Tax Pro?

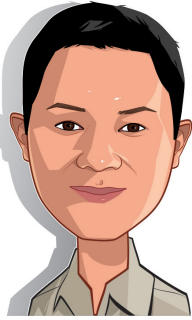
If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.



Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at (732)-902-2929 or email me at info@caballeroepas.com. Perhaps I'll feature you in a future issue!



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See What's Inside...

- Audits Are Painful: How to Avoid Them
- Protecting Your Identity is Our Top Priority
- What Are Small Businesses Up To In 2018?
- Interview Questions For Newbies And Veterans
- This Substance May Revolutionize Solar Power.
- Brain Teasers Can You Figure Out The Answers To These Riddles?
- Assert Yourself To Stay Ahead In Your Company
- The Golf Lesson

Assert Yourself To Stay Ahead In Your Company

Assertiveness will help you build positive relationships at your company. Like most constructive traits, it can be learned.

Here's what to do:

- **Target your goal.** Take a moment to identify what you want from an interaction with a team member. Our desire to please others can get in the way of what we really need. Think about your own objectives and constraints before agreeing to requests for help.
- **Be specific.** The fewer mixed messages you send to people, the more likely you'll get what you want from them. For example, instead of saying, "I need that sometime today, if possible," specify when you need something from a team member.
- **Ask for more information.** You need information to make good decisions for yourself. If you think a customer or vendor is making an unreasonable request, ask for clarification. That way you can understand the request more fully, and you'll have the confidence to say "yes" or "no."
- **Take ownership of your message.** Use "I" phrases instead of trying to pawn off responsibility. Say, for example, "I need that report on my desk by the end of the day," instead of "They want the report today."
- **Say "no" when you have to.** In an attempt to seem cooperative or nice, many of us don't know how to say "no." When you must turn down a request, provide a short reason why you can't do it. Don't be overly apologetic—just be firm and polite.



The Golf Lesson

A man was taking his first golf lesson from a well-respected pro. Every time the instructor offered advice on how the man could correct or improve his swing, the man countered with a differing opinion and tried another technique.

This went on throughout the duration of the lesson. The instructor remained gracious and encouraged the man to try out his own theories. With each failed attempt the instructor would ask the man what he thought went wrong and how it could be fixed. The man always had an answer and continued to lead his own lesson. When the lesson was finished, the man thanked the pro, and scheduled another lesson for the following week.

"This was very helpful," the man said before he walked away.

Another golfer who witnessed the lesson approached the instructor and said, "I don't get it. You gave that guy solid advice, but he disregarded everything you said."

"Oh, he didn't want my advice," the instructor replied. "He wanted my agreement."

