



Not Your Basic Bean Counter

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NEWSLETTER

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Don't Just Tell the Post Office!!!



Most people know to inform the Post Office when they have a change in their address, right? That's important....no doubt. BUT, even more important is to inform the IRS. Do not neglect to do that. You do it by filing Form 8822, which you can find easily on the IRS website (www.irs.gov).

In a recent court case, the IRS had been looking for a particular taxpayer to send a deficiency notice to. By law, a taxpayer's last known address is the address that appears on the taxpayer's most recently filed and properly processed Federal tax return, unless IRS is given clear and concise notification of a different address. Notification of an address change that is given to someone other than the IRS (like when the Post Office is notified) does NOT constitute “clear and concise notification” to the IRS.

In this court case, the taxpayer had moved (actually 7 times!) and the Post Office had alerted the IRS that its mailings to that taxpayer were “undeliverable”, but provided no new address. Accordingly, the IRS won in court and the taxpayer was in deep trouble. Why? Because the time to challenge the IRS assessments had passed and they could no longer fight it, so they had to pay whatever the IRS said they owed.

All because they did NOT file a Form 8822 (and yes, they would have needed 7 of them!).

CONFIDENTIALITY.....A REALLY BIG DEAL

The first five years of my CPA life were spent with the largest CPA firm in the world (Arthur Andersen). They were sticklers for something called professionalism. One of the main tenets of that entailed “confidentiality”. If you breached that, you were fired immediately. I want to make sure that you all know how serious we take “confidentiality”. If one of your friends asks us how you are doing, our answer is “why don't you call them and ask them”. If one of your relatives asks us that question, they get the same answer. That can anger some people, but that's just too bad. If you send in a relative to pick up your tax return, we will NOT let that person pick it up without WRITTEN permission from you. This can sound harsh, but we take your privacy very seriously. I sincerely hope you appreciate our stance on this. We are casual, fun-loving people...but not when it comes to protecting your information!

A VERY SPECIAL INVITATION—FREE!

Concert Sunday, April 12, 2015.....3pm at Marshfield High School Auditorium

Ron Verdi, SAXsational will be performing.

The final concert of the year, for Community Concerts, will be held April 12, 2015. That's a Sunday at 3pm. Doors will open at 2:15pm. Ron Verdi is a world famous sax player and will be bringing over 20 saxophones with him to play for us.

I am offering ANY of you who are NOT members of this organization to be my guest for FREE. Just tell the front ticket takers that you are my guest! That's it. Why am I doing this? Because I am the President of that organization and I really want to see the membership increase. We don't advertise, so the ONLY way you might ever know about this is by invitation. So here it is! Please come. Bring kids (over 6 years of age, please). At the concert I will tell you about an opportunity to become members and support this incredible music association. No pressure, just pure enjoyment!

Some Tax Reminders

1. April 15, 2015, is the first deadline for filing individual tax returns. Millions of returns will be extended. The final due date will, then, be October 15, 2015. If you get extended, NO WORRIES!
2. This is a tough year, with all of the Affordable Care Act stuff we have to deal with! So, you have to be extra nice to us! Cookies and assorted goodies are always welcome (no hint here).
3. **WARNING....AGAIN....FOREIGN ACCOUNTS:** I have been warning my clients for years now about how serious the U.S. Government is about taxpayers having assets in foreign countries. There is an annual reporting requirement....and the IRS is on the warpath about this. I have explained the circumstances and issues in prior newsletters, so I won't do it again here. The potential penalties for non-compliance are gigantic.

True story....I just met with a taxpayer who has not filed tax returns for several years because he/she did not make enough income to file. That's quite common. However, this taxpayer told me that he/she had \$40,000 in an overseas bank account and has never reported it. This is serious, folks. I think I ruined this person's day by telling him/her about this. The good news is that I gave him/her the phone number of an attorney who handles just this kind of thing and can probably get him/her out of any large penalties if acted on right away.

If you know anybody with assets in overseas accounts, please have them call me immediately. I will get them in touch with an attorney who can guide them. It is very serious stuff to the IRS.

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COMPLEX....BUT WORTH READING....A BIG TRAP

ISSUE: Mike is single. In 2014 he sells his home for \$525,000 and will be carrying the note over 10 years. His cost was \$280,000 many years ago. He has always lived in it. He meets the IRS rules so that he gets to exclude \$250,000 of gain. His calculated gain is a total of \$525,000 less \$280,000 or \$245,000. Assume he had "selling expenses" of \$12,590, so that his actual gain was the \$245,000 less \$12,590 for a final gain figure of \$232,410. Most of you know the rules about selling your house. Since Mike is single, he has a \$250,000 exclusion available to him. Since his total gain was LESS than \$250,000 he reports no gain on his tax return. Simple....clean....nice....easy.

TROUBLE: 4 years later (after collecting \$50,280 in principal payments), the buyer stops making the payments (bummer). Mike ends up repossessing the house. Before I go into any numbers, I want you to get a feel for what the issue is....because it is gnarly.

Here's the gnarly issue....back in 2014 you all get the fact that Mike sold his "personal residence" and that there are special rules in place for the sale of a personal residence that allows the seller to shield some (or all) of the gain. Hence, there was no gain for Mike to pay any tax on back then. BUT WHAT ABOUT NOW?

Mike is surely going to sell that house again, right? Well, now, 4 years later, that house does NOT qualify as his personal residence and he does NOT meet any of the special IRS rules that allow him to exclude the gain. That's not good because Mike will now have to pay tax on the second sale! Forget the numbers for right now. Just concentrate on the theory for a second. This is not a good result for Mike.

CONGRESS TO THE RESCUE: Yay, Congress! They enacted rules that allow Mike to treat the second sale as a continuation of the first sale AS LONG AS MIKE SELLS THE HOUSE WITHIN ONE YEAR OF WHEN HE REPOSSESSED IT.

Okay....time for you to get the full impact of this with numbers. You are going to have to trust me on some of these numbers. I think you will get the point. Let's assume that Mike sells the house for \$510,000 WITHIN ONE YEAR and incurs selling expenses of \$8,950. Hang on to your hats....here we go....combining the 2 sales....

1. Adjust the 2014 sale price (525,000-474,715)	\$ 50,280
2. Sale #2 price.....	<u>510,000</u>
3. Total amount realized on both sales (1 + 2).....	560,280
4. Selling expenses (12,590 + 8,950)	-21,540
5. Cost of home	<u>280,000</u>
6. Redetermined gain (3 less 4 less 5).....	258,740
7. Awesome exclusion allowed AGAIN!!	<u>-250,000</u>
8. Gain that Mike DOES have to recognize (big deal).....	<u>\$ 8,740</u>

LESSON TO LEARN: The above analysis works great for Mike. You can see that. The TRAP occurs if Mike had sold the house AFTER ONE YEAR OF REPOSSESSING IT. If that were the case, that special "one year" rule would NOT apply and he would have to pay tax on the \$8,740 (no big deal, same as before) PLUS the \$250,000....for a total of \$258,740. How do YOU spell "OUCH!!!"

So, if you sell your personal residence on the installment basis and end up repossessing it in the future, MAKE SURE YOU LET US KNOW IMMEDIATELY SO WE CAN PLAN FOR THIS!!

Planning For The Unexpected

Don't forget to go to my website, click on the Members Only section, log in with "mag" as the secret password, and print out the "Planning For The Unexpected" pamphlets. They are FREE. I want to get these into the hands of ANYONE willing to bite the bullet and prepare for the unexpected. Please take this seriously. I passed these out at our client party. If you were not able to attend the client party, please get on to my website and print these out. I spent over 30 hours preparing these and I think they are the best out there (I might be a little biased).

CYCLONE "PAM" CAN'T SCARE US AWAY!!!!

Mike and Rhoda off to Vanuatu...gone most of May

The majority of you read about Cyclone Pam sweeping through the island chain of Vanuatu in March. It was a category 5 cyclone and it caused massive damage in Vanuatu. By the way, a cyclone is just a hurricane. It's called a hurricane if it is formed above the equator and a cyclone if below the equator (I have NO idea why). As many of you know, our daughter and son-in-law, and 3 grandsons, are missionaries there. It took about 4 days before we were able to hear from the kids and learn that *their* island (there are 83 islands making up Vanuatu) escaped major damage and they were just fine. Whew.....so glad to find that out.

It's almost impossible (as in *expensive*) for them to get back to the states. So, we try to see them every couple of years, if possible. Well, we finally have enough mileage points with our credit cards so the flights will be free (I like that!). We will be gone for most of May 2015. We will be traveling through some of the islands that were not so lucky and were subject to some massive devastation. We will try and take pictures and give a report when we get back. While gone, my awesome staff will be here to handle any tax matters that come up. We will have internet access, at times, but it will be scarce and slow, so I am fully expecting that my staff can handle anything that might come up! I appreciate the prayers and concerns that came in through email and Facebook about my family down there. They feel blessed....and they are.

Discrepancies exist regarding alimony payments! Oh, my!

When a taxpayer pays alimony to a former spouse, they get a deduction for the amount paid. BUT...the former spouse who receives the alimony must pick up that as income in the same amount. That makes sense, right? Do you suppose the IRS is checking to make sure that this is, in fact, happening? OF COURSE NOT!!

A government agency (TIGTA) did an audit...a year ago....and discovered that there was a discrepancy of more than \$2.3 billion!!! Yeah, \$2.3 billion more in alimony deductions than were claimed as income on the other side. And that's only for one year (I have a headache!).



From The Desk Of.... *Rhoda Gordon*

"I'm youth, I'm joy, I'm a little bird that has broken out of the egg."Peter Pan

That's Peter Pan...and it's also our granddaughter Alice, who will soon be four. She matches his skill at charming others into launching out from their comfort zones. Only such passionate enthusiasm is contagious enough ("Come on, Gigi! Let's go find some spiders!") to propel me, an arachnophobe, into booby-trapped bushes. Alice *loves* insects, and bugs of all kinds. Slugs, too. One day, helping me in the garden, she was horrified to see a murderous intent in my eyes as I bore down on a slug, spade in hand. Alice screamed "NO!!" So I ended up throwing it over the fence to keep the peace, with instructions to "throw it gently, so it didn't break its bones".

Fortunately, she also loves birds (but maybe not as much as bugs). We were both ecstatic when I spotted a hummingbird nest right outside my living room window, complete with a very hungry baby. Mama bird, the original helicopter parent, swooped in and delivered her payload as we watched. The fueling--tiny beak into even tinier beak—brought home the bacon in the most direct way imaginable.

There is so much new life happening right now. With all the budding, blooming, buzzing, baby lamb bleating and baby bird chirping, it doesn't take a calendar to know that spring has arrived. It's a good time to take a page from Peter Pan's (and Alice's) playbook and break out that inner child!

Easter is almost here; a lot of eggs are about to be boiled. Egg salad? It's a perennial favorite at Mike's office, so I've tweaked and re-tweaked my formula over the years. Feel free to tinker with it and make it your own.

Egg Salad

- 6 eggs
- ¼ cup mayonnaise
- 2 Tablespoons plain Greek yogurt (or sour cream, or softened cream cheese)
- Salt, to taste
- ½ teaspoon freshly ground pepper
- 2 to 3 teaspoons freshly squeezed lemon juice
- 2-3 teaspoons Dijon-style mustard
- 1/4 cup—any combination—finely minced red onion, chives or green
- 1/2 cup celery, finely chopped
- Optional add-ons: Tabasco, sweet or hot paprika, curry powder, fresh dill, minced sweet or dill pickles—all to your personal taste

Put eggs in a saucepan and cover with cold water. (I like to use eggs that have been in the fridge for a week or two because they are easier to peel.) Heat saucepan, uncovered, until the water comes to a gentle boil. Immediately take it off the heat and put the lid on—set your timer for 10 minutes. Meanwhile, fill a largish bowl with ice water. When the timer rings, drain the eggs and shake the pan to make the shells crack against its sides. Drop the eggs into the ice water and leave them to cool.

Peel the cooled eggs and divide the yolks from the whites. The yolks go into a bowl; the whites onto a large cutting board. With a fork, mash the yolks. Chop the whites and add them to yolks in the bowl. Mix the other ingredients and optional add-ins in a small bowl and then stir gently into the eggs. Adjust seasonings to taste; cover and chill.

Delicious with warm pita, toasted bagels or rye crisp. Add lettuce, bacon, tomato. Or stir in some tiny shrimp. Enjoy!



FRAUD UPDATE



Every year, the Association of Certified Fraud Examiners publishes its *Report to the Nations*. This is considered the authority on occupational fraud and embezzlement. You can google the title and find it on the web. I highly recommend that ALL of my business clients print it out and read it. On the website, go down to the very bottom and you will see 4 columns.....the RESOURCES column has the “Download Report” item that you can click on. DO IT!! It’s only 80 pages and is FULL of information that will seriously help you in your business.

Here are some gleanings from the report:

1. Over 40% of all cases were detected by a tip. That’s over twice the rate of any other detection method.
2. The median loss was \$145,000.....BUT, 22% of the cases involved losses of at least \$1 million.
3. The median “duration” (how long the fraud went on before detection) was 18 months.
4. Firms with a hotline were much more likely to catch fraud by a tip. These firms experienced frauds 41% less costly and they detected frauds 50% more quickly.
5. Fraud occurs primarily in 3 categories: asset misappropriation, corruption, and financial statement fraud. Asset misappropriation is the most common, representing 85% of cases.

Sometime in June I am going to be contacting several of my business clients to go through a Fraud Checklist and a comprehensive look at their business using proven fraud processes and recommendations from fraud experts in our industry. This will be an involved process and will demand commitment on my client’s part. I want to identify who might be interested in this as soon as possible. If you are interested, please call me as soon as possible.

Checked out our website lately?

I publish each newsletter on my website as well as a lot of other information, articles, etc. Check it out every so often. I welcome any comments and suggestions for improvement!