

# Not Your Basic Bean Counter

Michael A. Gordon, CPA, LLC  
290 S. 4th Street, Coos Bay, Oregon 97420

www.mikegordoncpa.net  
541-269-1272



January 2016

NEWSLETTER

Page 1 of 6

## INSIDE THIS NEWSLETTER

- Page 1 .....Oregon comes down HARD on taxpayers!
- Page 2 .....Oregon comes down HARD on taxpayers (continued)
- Page 3 .....Oregon comes down HARD on taxpayers (continued)
- Page 4 .....Taxpayer Advocate office issues annual report...bummer!
- Page 5 .....Identity Theft....painful, aggravating, time consuming
- Page 6 ..... Client Spotlight—Electric Hospital



# Oregon Coming Down HARD on Taxpayers!!!!

Oh, boy.....here's some news that is a real heartbreaker.

I have said, for years, that the Oregon Department of Revenue (the Oregon version of the IRS) has been conducting far more audits than the IRS. That should not be a surprise. After all, the IRS is conducting fewer and fewer audits each year. You all know that because I have kept you in the loop regarding the large cutbacks the IRS has sustained over the years. Their hands are tied, they don't have the personnel they need.....and on and on.

Several years ago, the Oregon Department of Revenue ("ODR") conducted "test" audits in several cities in Oregon. The single subject was auto usage. Translated, that means the mileage claimed by taxpayers on their tax returns. The word on the street (from CPA's who's clients got audited) was that the ODR was really harsh. **Really** harsh! Apparently if the taxpayer did NOT have an adequate log all auto expenses were thrown out. Now, that is harsh!

## So...how about today?

I recently had lunch with a good friend of mine who is also a CPA. He told me the tale of a client presently undergoing an Oregon audit. Folks, it got ugly. Bad. Ugly.

This subject is important enough that I am going to devote some space in this newsletter to go over what happened and where I stand on this issue....and a recommendation for my clients.

So....hold on to your hats, fasten your seat belts and enjoy the flight!!

There are actually 2 audit issues here...first, auto mileage. Second, cell phones. I will deal with each of them separately.

## I. Auto Mileage Deductions



# Not Your Basic Bean Counter

January 2016

Page 2 of 6

The position of the ODR is simple. No documentation, no deduction. Look, let's just be real honest here. I know doggone well that auto usage is one of the LEAST documented areas for taxpayers. Very few taxpayers actually fill out a log book the way the IRS and ODR require. It's a drag....nobody wants to do it. Right? Well, in many IRS audits, I have seen the agent be fairly reasonable. In other words, even without adequate documentation, they have allowed a partial deduction.

*The ODR is having nothing to do with that!*

I wish I had better news, but I don't. I think they know that they can deny and disallow deductions and the taxpayer will not fight it. Why? Because the cost of fighting it (and I'm talking about my fees!) will be more than the assessment! Really. That's sad. They have us over a barrel. So what can we do? Read on.....

## Mikey's recommendations:

### 1. If you drive a LOT of business miles

Bite the bullet and keep a log book. You can buy one at South Coast Office Supply. But do it. Don't complain. Don't moan. Don't procrastinate. The ODR has "hit it big". They've uncovered a virtual treasure trove of money! Don't be a contributor to their war chest! Keep your money where it belongs....in YOUR pocket.

### 2. If you drive minimal business miles

Here's where I am going to sound like a traitor to you! But hold your judgment and give me a good listen, ok? I am going to suggest that you FOREGO claiming auto deductions. You heard me right. Why? It simply is NOT worth the headache. For such a small amount of money (see my calculations below) it is NOT worth making the ODR angry. I've been on the bad side of an audit.....it ain't pretty. On the next page I will give you some solid numbers that you can use to evaluate your particular situation.

## EXAMPLE:

Let's say that Mike drives an average of 12,000 miles each year. That's pretty normal. Of those miles, only 4,000 are for business. Mike is in the 25% tax bracket for Federal taxes and 10% for Oregon. So, let's look at the numbers.

So, the  
this case,  
claiming  
driven.

Business Miles	IRS allowed rate per mile for 2016	Deduction	Tax savings
4,000	\$.54	\$2,160	\$756

table shows that Mike, in is saving \$756 in taxes by the 4,000 business miles Another way to say that is....Mike will owe an ad-

ditional \$756 in taxes if he stops claiming business auto miles. So, let's put that into perspective. \$756 di-

vided by 12 equals \$63.

Now, obviously, if Mike has adequate records he should not change anything. But if Mike is like so many other taxpayers and does NOT keep adequate records, then he should either bite the bullet and get the log-book and fill it out religiously....OR, in my humble opinion, he should STOP claiming business use of auto deductions.

Let me put it properly for you....**IT ISN'T WORTH \$63 A MONTH TO ANGER THE ODR!!** Why? Because you will get an audit, an assessment, an angry agent who will probably decide to audit other things in your return, and the ever popular penalties and interest. What a deal, huh?

So....I leave it up to you. It's your decision to make. May the Force be with you.

NOW, LET'S GO ON TO CELL PHONES.....

## **II. Cell Phone Deductions**

Ok, let's take a look at deducting cell phones. The IRS has, over the last several years, simplified the rules for deducting cell phones. The rules are a bit convoluted, but way better than before. Let me just say that the ODR agents are ignoring the IRS rules and being WAAAAY harsh here.

We all know that millions of taxpayers are deducting cell phones as business expenses. The ODR is taking the position that they will DISALLOW almost all cell phone deductions! For example, if you do NOT have a land line (and most people today do not) the ODR will not let you deduct ANY cell phone expenses unless you can show that you pay more now than you did before you started using your phone for business. So, for example, I pay \$58 a month for my cell phone. Six months from now I start a business and change nothing regarding the cell phone. NO DEDUCTION...no matter HOW much I use it for business. But, if I "upped" my plan to \$75 a month when I started the business, then I can deduct the \$17 difference. BUT even in that case the ODR wants to see a log showing personal use and business use. ABSURD!

I am going to stop here because you get the point. The ODR is being really harsh and they don't care if they are over aggressive because they know you won't fight it.

This kind of stuff drives me crazy. A little bit of leniency, understanding, reasonableness.....it wouldn't hurt them.

**CONCLUSION:** Hope I didn't ruin anyone's day! I feel like Paul Revere...."The British are coming!" Only I'm yelling "The ODR is coming!"

## **“Taxpayer Advocate” Delivers Annual Report to Congress**

In her 2015 report to Congress, National Taxpayer Advocate (NTA) Nina Olson expressed concern that the IRS may be on the verge of dramatically scaling back telephone and face-to-face service that it has historically provided to assist taxpayers comply with their tax obligations. Boy, is she ever right! Ms. Olson characterized the combination of reductions in personal service and the IRS's plans to direct taxpayers with questions to preparers and other third parties (along with the expansion of IRS user fees) as creating a "pay to play" tax system, where only taxpayers who can afford to pay for tax advice will receive personal service, while others will be left struggling for themselves. UNBELIEVABLE!!

In the unlikely event that you are crazy enough to want to read the entire report for yourself, you can find it at:

[www.taxpayeradvocate.irs.gov/Media/Default/Documents/2015ARC/ARC15\\_Volume1.pdf](http://www.taxpayeradvocate.irs.gov/Media/Default/Documents/2015ARC/ARC15_Volume1.pdf) .

Our world (the tax world) is changing dramatically....and NOT for the better. In the last couple of years, dealing with the IRS has become an absolute nightmare. What used to take 2-3 weeks to clear up is now taking 6-9 months. And, as a lot of you already know, that translates into MORE cost to you. And, to repeat myself, it is NOT getting better. This tax season may be the worst we have experienced in decades.

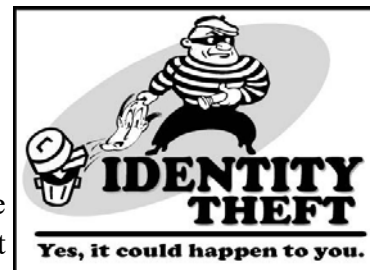
And, to make matters even worse, do you know what the single biggest problem is in this tax world?

# **IDENTITY THEFT**

I will address this issue elsewhere in this newsletter. Please read that article (*after* you take your valium!). But first, a few numbers to whet your appetite. The Federal Trade Commission says that some 10 million Americans fall subject to identity theft annually, with financial losses totaling close to \$5 billion. Ouch.

Now remember, identity theft takes on all kinds of appearances. There's financial identity theft, medical identity theft, social security number identity theft, and several more. For the article on the next page, I will deal exclusively with the kind that impacts YOU, the taxpayer. It's not pretty.....and it is growing each year. Please read the next page slowly and carefully.

**IDENTITY THEFT...**  
**PUBLIC ENEMY #1**



This is now the biggest threat on the horizon. The numbers are staggering. We have seen far too many of our own clients fall to this enemy. For some reason, it seems that when talking to other CPAs they have more clients falling prey to this than we do. I wish I could say it is because we are so awesome and know how to thwart those dastardly evil hackers! Truth is, it can happen to anyone. My son, who is a top level IT person, tells me that identity theft is going to explode over the next couple of years and there is not a whole lot that we can do about it.

Now, at this point, rather than go into some gigantic article about the subject (and it would be a huge article that would put you to sleep and/or scare you to death) I will point you to the IRS website. That's right, the IRS website. Just for the record, it is;

*[www.irs.gov](http://www.irs.gov)*

On the IRS website you will find LOTS of information about the subject. Under the heading of "News" you will see an item titled "ID Theft Tax Tip Series". If it's not there, do a search for it. It has lots of good information. Next, in the search field, at the top of the page, type in "Identity Theft". You will get a LOT of hits that you can read.

OK....so far, I've been talking about what you can do BEFORE you get hit. Now, let's deal with what happens WHEN you get hit with identity theft. From a tax standpoint, we normally find out about it when we try to efile your tax return. Here's how it goes....we efile your tax return and wait for the IRS authorization. But, oops, we get a FAIL notice...a reject code from the IRS. This can mean several things, but it often means that the IRS rejected the return because somebody has ALREADY filed a tax return with your social security number! This is moan and groan time.

When this happens, we will contact you. There are some forms that you will need to fill out right away and some processes that you will need to go through. It will be agonizing, painful, emotional, angering, and more. It will take a long time to get resolution. I just finished teaching a seminar for a large CPA firm in Salem and spoke with one of their CPAs who told me that she has a client that has been hit with identity theft and is STILL WAITING FOR A \$60,000 refund....it's only been a year and a half! That's NOT the norm, but it is obviously quite possible.

Surely the IRS is devoting enormous resources to this, right? I think you know the answer to that.

**CONCLUSION:** This is serious stuff. I would strongly recommend reading some of the material on the IRS website. If it does end up happening to you....we'll be there immediate-



## **CLIENT SPOTLIGHT**

### ***Electric Hospital*** ***Owner, Joe Neill***



#### **Joe says.....**

“I am Joseph married to Maria and sometimes we kneel. That makes it easy to remember our name Joe and Maria Neill. We have been a client with Mike Gordon’s staff before Mike was here. Prior to cell phones, personal computers and the internet. Linda Stanley did the books for the Electric Hospital. When Linda and her staff partnered with Mike her staff stayed on. Lots of changes have happened since the 1980’s but our core values and Mike’s have always been simple take care of customers and they come back. Do a really good job and they send their friends.

In 1981 Maria and I had two young children, and were searching for a great place to raise a family. Being passionate about being outdoors the Oregon coast had a lot to offer over the mud flats of Houston Texas. With 50 bodies of water to paddle and not every insect having a stinger and every plant a thorn with a poisonous snake hiding underneath this place seemed like a perfect place for a modern pioneer family.

What you may not know is Maria’s mother was a Navy Wave and she was born in Chile to an Air Force pilot. To maintain her dual citizenship she came to Texas and married me. When our oldest daughter graduated from college we sent her to Chile to visit relatives. She married a Chilean and we now have one Chilean granddaughter. This brings our grandchildren count up to 6. In the future I hope to spend more time teaching them how to paddle canoes, take pictures and invent fun things.

We share Mike and Rhoda’s joy of life. He realizes life is not about just making money you have to have fun too. Having fun is big part of the Electric Hospital. We celebrate creativity with our vacuum cleaners, sewing machines and long arm quilting machines. Most everyone has a sewing or cleaning problem that we can help solve. That means we get to meet a lot of people and they have great stories they share with us. We do more than just sell you a bargain product. We take away the worry about service training and maintenance. Of course we listened when Mike suggested we change our name to Electric Hospital LLC but the fun commercials and great customer service are still our core values.“

***Thanks, Joe! You’re awesome....and we encourage all of our clients to visit the Electric Hospital before buying anywhere else. Joe and his staff are incredibly knowledgeable and friendly.***