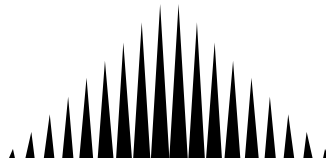


Tax interview appointments are now available. Please call to schedule your appointment today!

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**Certified Public Accountant**



**JUNE 2010**

Word of the Month

**Baksheesh** \bak-SHEESH\, noun;

1. A gratuity, present or tip.
2. A gratuity, tip, or bribe paid to expedite service.

***Did you file an extension for your company or personal tax return?***

**If the answer is yes, you should be receiving a letter within the next few days. Please pay close attention to this letter as it will have an appointment time for you to meet with Dennis, Donna or Karen so that we can prepare your returns in a timely manner. If your appointment time should change, please contact our office immediately to change your appointment. The calendar is filling up fast!**

Have you ever wondered if you are entering everything correctly in QuickBooks? Are there things that you could be doing in QuickBooks that would make your life easier? I bet the answer is yes! If so, perhaps you should consider taking a QuickBooks class from our certified QuickBooks ProAdvisor. Donna Cox provides one on one QuickBooks classes. The class consists of one 3 1/2 hour course. It is tailored to meet your QuickBooks need. The cost is only \$350. If you would like more information on the QuickBooks class, please contact our office! We would love to show you around QuickBooks.

IRS examiners told to carefully observe operations of cash intensive businesses

The IRS has traditionally scrutinized cash businesses very carefully for tax evasion, and a recent update to its Audit Techniques Guide for cash businesses reinforces the agency's proactive approach. The IRS reminded its examiners that their focus should be on probing the business for unreported income.

**Cash intensive business**

The IRS views a cash intensive business as one that receives a significant amount of receipts in cash. Examples are restaurants, convenience stores and hair styling salons, which all handle a high volume of dollar transactions. In some industries, for example construction, cash may be commonly used to pay workers.

**Red flags**

The IRS told its examiners to look for certain signs that may indicate that cash is being misappropriated from a business. These include:

- A lifestyle that cannot be supported by the income reported by the taxpayer;
- A business that continues to operate despite losses year after year, with no apparent solution to correct the situation;

- Bank balances, debit card balances and liquid investments increase annually despite reporting of low net profits or losses;
- A significant difference between the taxpayer's gross profit margin and that of their industry; and
- Unusually low annual sales for the type of business.

**Example.** A cash intensive business, which is the only reported income for this family of four, consistently reports ordinary income of \$20,000 to \$30,000 in the past six years. During the same period, the taxpayer has accumulated two rental properties whose fair market value is in excess of \$180,000. Both properties report unusually small rents and substantial expenses, resulting in losses. This scenario, according to the IRS, could indicate misappropriation of cash and tax evasion.

### **Misappropriated cash**

The IRS identified three principal methods to misappropriate cash from a business.

- Cash can be skimmed from receipts;
- Cash can be stolen after it has been recorded; and
- A fraudulent disbursement can be created.

### **In-person examinations**

The IRS emphasized the importance of conducting in-person examinations. In a cash intensive business, the IRS noted that there may be very few tangible records. This makes the interview with the taxpayer crucial as the oral testimony of the taxpayer may be the only evidence provided. The IRS instructed its agents to ask the taxpayer to explain every step from the time that cash and other income is received until it is deposited to a bank or spent. An interview for a cash intensive

business may take two or more hours, the IRS noted. The IRS also instructed its agents to observe how cash payments are made and how they are handled by the taxpayer. This includes spending time watching the procedures at the taxpayer's cash register, comparing the cash register tapes from the day the register was observed to the tapes for the audit period, and matching the taxpayer's statements, cash register records or reports against the findings.

### **. IRS issues forms, instructions for HIRE Act employer tax incentives**

Wasting little time in helping important business hiring, the IRS has released forms and instructions for the employer tax breaks in the Hiring Incentives to Restore Employment (HIRE) Act. The IRS unveiled new Form W-11, Employee Affidavit, which covered employees can use to certify that they meet the criteria of the HIRE Act. It also revised Form 941, Employer's Quarterly Federal Tax Return, and Forms W-2, Wage and Tax Statement, and W-3, Transmittal of Wage and Tax Statements, to reflect the HIRE Act.

### **Temporary incentive**

Under the HIRE Act, qualified employers can enjoy a payroll tax holiday from their share of OASDI tax paid for covered employees. The "holiday" applies to all covered employees for wages after March 18, 2010 and before January 1, 2011. Additionally, the new employee can begin employment anytime after February 3, 2010, although only 2010 wages paid after March 18 count for the holiday. The HIRE Act also allows qualified employers to claim a

worker retention credit. For each covered employee, the employer's general business credit is increased by the lesser of \$1,000 or 6.2 percent of the retained worker's wages during a 52-week consecutive period. That 52-week period can start anytime after February 3, 2010 and through December 31, 2010.

### **Form W-11**

The HIRE Act requires employers to obtain a statement from each eligible new hire certifying that he or she has been unemployed or underemployed. Employers can use new Form W-11, Hiring Incentives to Restore Employment (HIRE) Act Employee Affidavit.

Form W-11 asks the covered employee to certify that he or she has been unemployed or has not worked for anyone for more than 40 hours during the 60-day period ending on the date that the individual began employment with the employer. The covered employee must sign the form under penalties of perjury. Form W-11 does not have to be filed with the IRS but the employer must make the form available to the IRS if requested.

You may visit the IRS website at [www.irs.gov](http://www.irs.gov) to view the additional forms that were effected by the changes.

As always, if you have any questions regarding this article, please feel free to contact our office at 770-920-2890. Thank you!