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940 West Sproul Road, Suite 101, Springfield, PA 19064
Phone: (610) 544-5900 • Fax: (610) 544-7455 • E-Mail: info@brinkersimpson.com
www.brinkersimpson.com

Special Interest Articles:

- "Tax Gap" –And IRS Action
- Taxing Damages Awarded in a Law suit
- Capital Gains Reporting

Highlights:

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"Tax Gap" – And IRS Action

In an earlier issue, we highlighted the "Tax Gap" which the government has measured at \$300 billion a year. The "Tax Gap" is the difference between taxes owed – actual taxes collected. So, lawmakers are urging the Internal Revenue Service on, disturbed by this rate of non-compliance. The Service has created a plan of attack, which has been accepted by the General Accounting Office. Coming in for more scrutiny will be:

- **Sole Proprietors** – (Schedule C) who the Service believes can under-report income—and inflate expenses
- **Farming Activities** – especially the part-time hobby farmers
- **Itemized Deductions** – Medical expenses, charitable contributions (see our last issue) and job related expenses
- **Gamblers** – under-reporting winnings and overstating losses
- **Misclassified Workers** – IRS suspects businesses are avoiding payroll taxes with flimsy independent contractor arrangements.
- **Random Audits** – the Service will select 13,000 returns at random this year.
- **Real Estate Professionals** – Real estate professionals are exempt from the passive loss rules if they meet certain criteria.
- **S Corporation Shareholders** – taking unreasonably low payroll – or none at all – to avoid social security taxes

Taxing Damages Awarded in a Lawsuit

An appeals court has reversed last year's ruling that it is unconstitutional to tax awards for mental distress and injury to your professional reputation. The full award is taxed. There are **two limited exceptions** – **only** payments for **physical injury** or **illness** are exempt. Damages for mental suffering from physical injuries are not taxable as are payments for medical treatment of emotional trauma.

Capital Gains Reporting

The Service is petitioning Congress and the SEC to require stock brokerage firms to report cost basis information on their customer stock sales—as they

currently do for the sale proceeds. There are some bumps in this plan—given that many investment houses do not have the information available for

stocks purchased long ago, inherited investments, and those transferred from other companies. Looks like the earliest this will happen is 2008-2009 tax filing year.

Energy Tax Credits



We touched on this in our last issue, but there are some common energy saving moves that will gain the credit in 2007:

- **Upgrade Insulation** – up to a \$500 credit so long as the insulation meets specific

requirements in your region (usually R-38 or R-49)

- **Replace Your Water Heater** – a \$300 credit for a high efficiency water heater. For qualifying heaters, log on to gamanet.org.

- **Install Storm Windows** – up to a \$200 credit for qualified storm windows (check which ones do qualify with the company).

Contact us before you make these purchases.

WARNING – About e-mails from the IRS

Do not open any e-mails from the IRS! We alerted you to this in our last issue...and we have been contacted by 6 clients in September alone who have received emails declaring the IRS has a refund for them. **The IRS does not communicate by email to any taxpayer....so immediately delete these emails.**

Record Retention

Many businesses and individual clients ask us "How long do I need to keep my tax records? Although there are really no concrete rules for this, here are some recommendations:

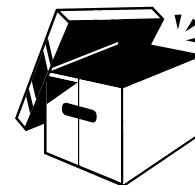
- The IRS can select your return for audit generally within 3 years after the date you filed the return.

- If you purchase real estate, sell a primary residence or rental property, keep these records indefinitely.

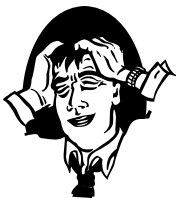
- In businesses – keep 10 years of payroll records for your employees.

- Keep your tax return copies indefinitely and supporting documents for 7 years.

Remember to shred all documents related to your taxes and finances. There are several local and national companies that will pick up important documents and certify to you that they have been shredded.



Time for a Vacation?



In recent Senate Committee hearings regarding U.S. Tax Compliance implications and foreign tax havens, it was noted that 12,478 United States companies use the five-story Uglan House in George Town, Cayman Islands as their business address. Must be a busy place!

Tax Collection

The IRS recently announced it had collected \$8.5 billion of delinquent payroll taxes in 2006—from *federal government agencies*. Go figure.

CLIENT SPOTLIGHT – *Élan Concierge*

We've all heard the saying that "time is of the essence". For Élan Concierge, making time and offering countless services that are "limited only by your imagination", is their #1 goal. Whether it's dropping off the car for service or reserving that corner table, watering the plants or finding tickets to the Orchestra, Élan Concierge has someone who can and will take care of it—and take care of it better than you can.

Élan Concierge was started by Amy Hendrixson. Amy opened Élan two years ago in response to a desire to combine her expertise

of project management within corporate America with her personal interests. The marriage of her skills and interests turned out to be well-suited for the concierge industry.

Through choosing an industry with a growing market and utilizing plenty of networking which helped to land one of her first clients, a leading executive with Comcast, Élan Concierge has grown substantially since its inception. With a winning entry in The Philadelphia Magazine's annual "Best of Philly 2007" for *Concierge Services*, Élan

Concierge is proving to be on the road to success.

The types of services that Élan Concierge provides include, but are not limited to, the following: errand, information services, personal services, peace of mind, home coordination, salon and sports, travel and leisure, referral services and party coordination. Gift certificates are also available.

Élan Concierge's representatives may be reached by calling 610-420-1624 or by logging on to their website: www.elanconcierge.net.

COMPUTER CORNER – *Systems Backups* by Bruce Rosen of NetData Systems

Recently, I received a call from a panicked client. Their server had crashed and their accounting system was down. Fortunately for them, they had a fully functional daily backup system in place and we were able to restore the entire system from backup tape with no loss of data. My client's experience underscores the importance of having a solid backup procedure. In planning your backup procedures, the first thing to identify is what to backup. Take the time think about what data you or your business could not live without. Files such as: email, Word documents,

spreadsheets, databases, Quickbooks or other accounting files may all be critical to your daily operations. If you have a server, then the whole system may need to be backed up in order to properly recover in the event of failure.

Next thing to think about is how to backup. Backups can be made to any removable storage such as: an external hard drive, a CD-ROM, or a tape drive. Files can be copied to these devices manually or using software. Ideally, software, such as Microsoft's built in backup utility, Symantec Backup Exec or Yosemite Tapeware, should be used to automate backups on a daily or weekly basis.

Once backed up, the storage device should be stored off-site or in a fire proof safe.

Lastly, backups should be verified periodically by testing a restore to determine their validity. One of my larger clients plans disaster recovery tests once a year to validate their backup and restore procedures. While this might be overkill for small businesses, a periodic test of your backups is important to ensure your business continuity in the event of a system failure or disaster.

For more information on this or any other technology issue, please contact Bruce Rosen, NetData Systems at 610-543-1500.



940 West Sproul
Road
Suite 101
Springfield, PA 19064

PHONE:
(610) 544-5900

FAX:
(610) 544-7455

E-MAIL:
Info@
brinkersimpson.com

Visit us on the web:
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What's New at Brinker, Simpson & Co., L.L.P.

We welcome Thomas McGarrigle to the firm. Tom is a 2007 graduate from Saint Joseph's University and lives with his family in Springfield, PA.

The 7th Annual Run for Heroes 5K Run/Walk, to be on October 14, 2007 raises money for the Delaware County Hero Scholarship Fund. The fund provides money for the children of police, firefighter and emergency responders who have died in the line

of duty. More than \$150,000 has been raised since 2000. Brinker, Simpson & Company is a proud supporter of this organization and many staff members have participated. Contact us if you would like to contribute—or run this year.

On October 15th, Cardinal O'Hara Alumni will hold their annual golf outing at Edgemont Country Club. It is a 12:30 shotgun start and a scramble format.

Anyone interested in playing or becoming a hole sponsor should contact Michael Simpson.

Many of you have visited our new offices. Our conference room offers a large, quiet, meeting space with full electronic capabilities. If you would like to use our room for your corporate meetings, call us and we will reserve it for you.

Help Wanted

Our client, a Delaware County service company, is seeking a part-time bookkeeping assistant. Flexible hours (@ 20 per week), strong general ledger, Quickbooks, and reconciliation skills needed. Contact us if interested.

Wonderful World of Football!

"Football is like life, it requires perseverance, self-denial, hard work, sacrifice, dedication and respect for authority."—Vince Lombardi, Former Green Bay Packers Coach

"You hear about how many fourth quarter comebacks that a guy has and I think it means a guy screwed up in the first three quarters." —Peyton Manning, Two Time League MVP

"I'm one of the top players in the game, pay me like I'm one of the top players." —Terrell Owens, Current Dallas Cowboy WR

"It is a fine thing to have ability, but the ability to discover the ability in others is the true test." —Lou Holtz, Former Notre Dame Head Coach

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