

IRS NEWS & INQUIRER

What's the Answer?

Q. I have invented a machine and software for use in my business. I want to segregate this equipment into a LLC, then lease it back to the business. How much rental can I charge?

A. I am always happy to hear good business planning like yours that takes advantage of the tax savings that are available. And you are right, the more rental you can charge, the more the value of this plan should be.

You have two ways to maximize those payments. First, you can pay to lease the equipment itself – which of course will be limited to its FMV. Second, you can pay to license the software – which is not limited by a fixed FMV.

Get FREE Tax Help

If you still have questions about your previously filed tax returns, bring them in to us. We will give you a second opinion **free**. And we'll help you consider deductions which are often overlooked that may save you more tax dollars.

Call for **FREE** analysis.
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What's Happening?

IRS Often Wrong in Tax Return Preparation Assistance

The Deputy Inspector General for Audit reported that TIGTA auditors posed as taxpayers during the '07 filing season and presented five different scenarios to the IRS to obtain answers to tax law questions and help preparing tax returns. 67% of these test returns were prepared correctly, the remainder, 33%, were not; and due to errors could have subjected taxpayers to significant penalties for underpayment.

The IRS Free File Program was found to be easy to use, but the software was not always helpful or accurate in applying the law to particular factual situations. Further, the software did not always ask the appropriate questions. Visiting a Taxpayer Assistance Center was not helpful in a number of cases because the auditors found they needed to make multiple visits before they could even **schedule** an appointment to have a return prepared.

IRS Lost: Tax Court Rules Home Office Deduction Valid

Bruce, a musician, performed at clubs, music festivals, and taught music in his home as well as at a music school. He claimed a significant part of his 6-room apartment (49.4 %) as home office space. Some rooms were used for practice, others to store equipment – but all of the space claimed was devoted exclusively to business use.

The IRS disagreed, and scaled down Bruce's deductions, leading to a tax court battle. However, when the Tax Court examined the evidence it was clear to them that Bruce had taken all of the correct steps to substantiate his claim. Bruce wound up being able to deduct all of his original expenses – which, with his home office deduction, totaled more than \$8,000.

Wrong Form Costs \$24,000.

A computer analyst lost out on a \$24,000 Section 179 Deduction for an SUV he had purchased to use in his business simply because he used the wrong IRS form to report it on his joint return. He used the Employee Business Expenses Form 2106 rather than the Depreciation Form 4562. I don't know if this taxpayer had an accountant, or if he did his own tax return. I'd like to think he did it himself – this kind of mistake is something that no skilled accountant would have let through.

10/07