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Are you at risk of an audit?

According to recent statistics, budget cuts, staff attrition, and a heavy workload for IRS employees mean your chances of undergoing a tax audit are less than 1%. Does that sound like a non-event to you? Don't be lured into a false sense of security. The statistic is a blended rate covering many types of incomes and taxpayers. Here are some of the reasons returns were audited.

- **No adjusted gross income (AGI).** For AGI of zero, audit risk jumped to over 5%. The IRS benchmarks AGI because it is total income including losses from businesses and investments.

- **Large adjusted gross income.**Audit risk was nearly 2% for returns with AGI over $200,000. Audit risk climbed to 16% when AGI was $10 million or more.

- **International returns.** Due to a focus on offshore tax evasion, the audit rate of international returns was almost 5%.

- **Estate taxes.** Approximately 8.5% of estate returns were audited. Gross estates of $10 million or more were tagged with a 27% audit risk.

- **Corporate returns.** Small corporations experienced up to a 2% audit risk. The risk for large corporations with assets over $20 billion was 85%.

Be aware that even if you don't fit into any of these categories, your return may still be selected for audit. That's one reason it's essential to keep good records to support all deductions and credits you claim on your tax return for at least three years after filing. Examples of required recordkeeping include:

- When you deduct expenses for meals and entertainment, the written evidence must show who was in attendance and what business was discussed.
- A home office deduction must be supported by evidence showing your home office is used regularly and exclusively as the principal place of business.
- Certain non-business property that you gift, donate, or intend to distribute through your estate requires an appraisal.

Contact us for more information about tax audit issues.

Are you tracking your business mileage correctly?

In a recent case, the US Tax Court agreed with the IRS in being sticklers on the business mileage write off rules (Powell, TC Memo. 2016-111). In the case, a taxpayer used his personally owned vehicle for business purposes. For some of the trips, the taxpayer kept excellent records and produced a log with the exact miles driven, the destination and business purpose and the IRS and court allowed the mileage expense deduction. But, for other trips, he either did not have the required mileage log and attempted to estimate his mileage, or he did not keep an adequate log because he forgot to list the place he drove to. For those trips, the IRS and court denied the mileage expense deduction.

Failing to keep the required auto mileage log can jeopardize your business mileage deductions. Don't let this happen to you.

Will you be ready for the new overtime pay rules?

In May, the Department of Labor updated the rules for paying overtime. Under the new rules, salaried employees who earn less than $913 per week ($47,476 per year) will be eligible for overtime pay. That's double the annual exempt amount of $23,660 from previous rules. In addition, the total annual pay for an exempt highly compensated employee is $134,004 (up from $100,000 previously).

These amounts will be updated automatically every three years beginning in 2020.
The changes take effect December 1, 2016, which means you need to begin reviewing your payroll now, as penalties and fines can be assessed for noncompliance. One important step is to begin tracking hours for your salaried employees. You'll also want to review your payroll practices so you can determine the best options for your business as you get ready to implement the new rules.

Follow these steps to a comfortable retirement

- Planning can help you achieve a comfortable retirement. Here are five suggestions to consider.
    1. Start a retirement savings program as early as possible and contribute regularly. The longer and more consistently you contribute, the larger your nest egg will become, even before the compounding provided by growth and earnings. Regular, reasonable deposits wisely invested will easily outgrow sporadic and insignificant contributions.
    2. Deposit your funds in tax-deferred accounts. Invest in tax-deferred accounts to the greatest extent possible. If your employer offers a tax-deferred plan, such as a 401(k), contribute as much as you can, particularly if the plan provides matching funds. Investigate individual options, such as IRAs, for additional planning opportunities. Why? One of the advantages of tax-deferred accounts is that investments that aren't reduced by taxes will grow and compound at a faster rate. Other advantages include the ability to control your withdrawal rate and the amount of any accompanying tax, and the opportunity to postpone recognition of taxable income until retirement, when you'll likely be in a lower tax bracket.
    3. Establish an investment plan. As funds within your retirement accounts accumulate, you'll have to decide how to invest them. Establish an investment plan

as early as possible. Then follow your plan consistently, revising only enough to keep matters on course, correct for deviations, and respond to unexpected events.

4. Track your portfolio and rebalance as needed. Maintain a balance among growth, income, and short-term investments, and adjust the ratios as you age. The standard rules of thumb: When you're under forty, consider investing more heavily in moderately aggressive growth vehicles. In your forties and fifties, you might want to become more conservative, shifting your balance toward income-generating investments such as high-dividend stocks.
5. Once you're retired, plan withdrawals so your funds will last the rest of your life. To avoid running out of funds, plan for a long retirement. Postpone withdrawals as long as possible, and pay them out carefully. Calculate a workable percentage to withdraw from your portfolio on an annual basis. Assume your funds will need to last at least thirty years. Continue to revisit your investments each year to monitor and rebalance as needed.

A successful retirement plan requires forethought, discipline, and monitoring. Wherever you are in the process, we're here to help.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

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