

Auditing and Accounting
Business Management
Consulting
Business Strategies for
Taxes and Succession
Planning
Business Valuations
Cafeteria Plan Design
and Administration
Employee Benefit Plan
Services
Financial Planning
Payroll Management
QuickBooks Support
Tax Preparation

FINANCIAL IDEAS FOR TODAY AND TOMORROW

Footnotes

Help! I Just Got a Letter From the IRS

The 2020 tax filing season is firmly in the rearview mirror for millions of Americans. But now it's the season when the IRS sends letters to unlucky taxpayers demanding more money!

If you receive a notice from the IRS, do not automatically assume it is correct and submit payment to make it go away. Because of all the recent tax law changes and so little time to implement the changes, the IRS can be wrong more often than you think. These IRS letters, called correspondent audits, need to be taken seriously, but not without undergoing a solid review. Here's what you need to do if you receive one.

- **Stay calm.** Don't overreact to getting a letter from the IRS. This is easier said than done, but remember that the IRS sends out millions of these correspondence audits each year. The vast majority of them correct simple oversights or common filing errors.

- **Open the envelope.** You would be surprised how often taxpayers are so stressed by receiving a letter from the IRS that they cannot bear to open the envelope. If you fall into this category, try to remember that the first step in making the problem go away is to open the correspondence.

- **Conduct a careful review.** Review the letter. Understand exactly what the IRS is explaining that needs to be changed and determine whether or not you agree with their findings. The IRS rarely sends correspondence to correct an oversight in your favor, but sometimes it happens.

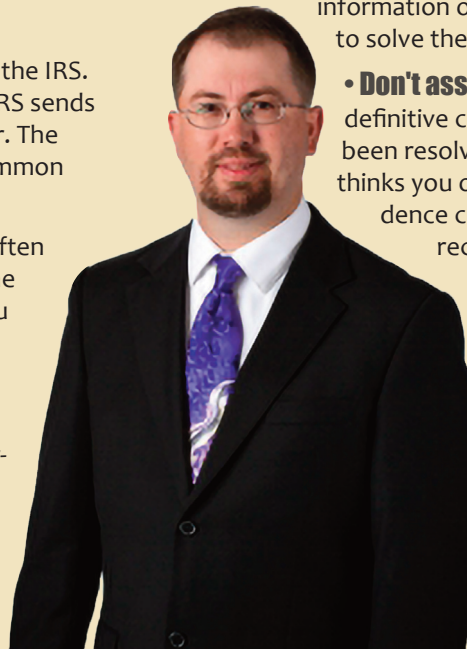
- **Respond timely.** The IRS will tell you what it believes you should do and within what time frame. Ignore this information at your own risk. Delays in responses could generate penalties and additional interest payments.

- **Get help.** Contact our office. Getting assistance from someone who deals with this all the time makes the process go much smoother. And remember, some of these letters could be scams from someone impersonating the IRS!

- **Correct the IRS error.** Once you understand what the IRS is asking for, a clearly written response with copies of documentation will cure most IRS correspondence audits received in error. Often the error is due to the inability of the IRS computers to match documents it receives (for example 1099s or W-2s) to your tax return. Pointing out the information on your tax return might be all it takes to solve the problem.

- **Don't assume it will go away.** Until receiving definitive confirmation that the problem has been resolved, you need to assume the IRS still thinks you owe them money. If no correspondence confirming the correction is received, you should follow-up with another written confirmation request to the IRS.

- **The IRS will not call you.** If you get a call from someone claiming to be from the IRS, hang up. The IRS will only contact you with questions about your tax return via mail.



Damian Hurmence is a partner in our Waterloo office.



Small Business IRS Audit Mistakes

In late 2020, the IRS announced that it will increase tax audits of small businesses by 50% in 2021. Here are several mistakes to avoid if you do get audited by Uncle Sam.

Mistake: Missing income. A long history of investigating has led IRS auditors to focus on under-reported income. If you're a business that handles cash, expect greater scrutiny from the IRS. The same is true if you generate miscellaneous income that's reported to the IRS on 1099 forms. Be proactive by tracking and documenting all income from whatever source. Invoices, sales receipts, profit and loss statements, bank records—all can be used to substantiate income amounts.

Mistake: Higher than normal business losses. Some small businesses

struggle in the early years before becoming profitable. If your company's bottom line never improves, the IRS may view your enterprise as a hobby and subsequently disallow certain deductions. As a general rule, you must earn a profit in three of the past five years to be considered a legitimate business.

Mistake: Deductions lacking substantiation. Do you really use your home office exclusively for business? Does your company earn only \$50,000 a year but claim charitable donations of \$10,000? Do you write off auto expenses for your only car? The key to satisfying auditors is having clear and unequivocal documentation. They want source documents such as mileage logs that match the amount claimed on your tax return and clearly

show a business purpose. If you can't locate a specific record, look for alternative ways to support your tax return filings. In some cases, a vendor or landlord might have copies of pertinent records.

Mistake: No expense reports. If you use your credit card for business, create an expense report with account numbers and attach it to each statement. Then attach copies of the bills that support the charges. This is an easy place to blend in personal expenses with business expenses and auditors know it.

Mistake: No separate books, bank accounts or statements. Never run personal expenses through business accounts and vice versa. Have separate bank accounts and credit cards. A sure sign of asking for trouble is not keeping the business separate from personal accounts and activities.

Mistake: Treat the auditor as an enemy. Auditors have a job to do, and it's in your best interest to make their task as painless as possible. Try to maintain an attitude of professional courtesy. If you're called to their office, show up on time and dress professionally. If they come to your place of business, instruct staff to answer questions honestly and completely.

Please call if you either need help preparing for an upcoming IRS audit or would like to know how to audit-proof your financial records.

Do You Need Human Resources Assistance?

Did you know that we can assist you with your human resources needs? We know business owners can be busy and don't have the time to do this on their own. Hogan - Hansen offers customized human resources services from a certified human resources professional. Some of our human resources services include assistance with:

- Policy manual development
- Job posting and hiring needs
- Employee surveys

Contact Heather Francis at 319-233-5225 for more details.



Estate Planning and Wealth Advice for Widows or Widowers

Nothing can prepare us for the loss of the one we love most. If you have lost your spouse, please know that Hogan - Hansen is prepared to help you navigate the difficult days and plan a path forward.

The death of a spouse/partner is one of the most challenging moments any of us can endure. As widows and widowers seek support and guidance to navigate their unexpected new normal, they should consider hiring a wealth advisor who will put their interests first and help them navigate the financial and estate planning aspects of this challenging life experience.

Consider taking these steps in preparation for meeting with your wealth team that will likely include a wealth advisor, tax professional, accountant and estate planning attorney.

Create a File of Important Documents, Including These, and Keep It in a Safe Place

1. Estate Planning Documents - Locate your spouse's estate planning documents, specifically the will and trust document (if applicable). Schedule a meeting with your estate planning attorney. They will explain any specifics in the documents as well as suggest changes for your own documents.

2. Death Certificate - It will be necessary to provide a death certificate to your bank(s) and investment firm(s) to update accounts in addition to your life insurance company to file a claim. Some firms may accept an electronic copy, but we recommend asking the funeral home to provide 10-15 certified copies. The certified copy is embossed with a government seal and is generally required to do things like claim Social Security survivor benefits, collect life insurance proceeds, open a probate court proceeding and claim assets in an account with a stated beneficiary (such as retirement accounts, transfer-on-death or payable-on death accounts).

3. Investment Accounts - Create an inventory of all accounts owned by you and your spouse. If you have online access, note the username and password.

- For joint accounts you had with your spouse, these will become solely owned by you. Consider adding a TOD ("transfer on death") designation which will allow you to state a beneficiary and have the asset avoid probate at your passing. If you have a revocable trust already set up, you may want to consider retitling that account in the name of the trust.

- If you have accounts spread across multiple firms, consolidating into one or two firms may make your life simpler.

4. Insurance Policies - Life, disability, health, long-term care, auto, homeowners and umbrella: you may need to update the policy owner and/or beneficiaries.

5. Taxes - Gather tax returns from the past two to three years. Notify your CPA and schedule a meeting. If you filed a joint tax return with your spouse, you will do the same for the tax year in which they passed.



6. Regular Bills - Review current bills including loan payments so you understand the ongoing cash flow necessary to cover these bills. Set up auto pay when possible and make sure you maintain enough in your checking account to cover the bills.

Start to Consider Your Financial Plan

Think about how your income and expenses will change, if at all. Now is the time to update your financial plan to make sure you are comfortable with your situation and if not, explore any necessary changes.

It's Not All About the Money

This is, by far, one of the most overwhelming and difficult times in your life. Try to avoid making big decisions that don't need to be made immediately. Be sure to eat well, exercise and get enough rest. When emotions run high, stress can have devastating effects on our bodies. Practicing yoga and breathing exercises can also be a big help.

Consider Working With Our Wealth Team

In our partnership with Mariner Wealth Advisors, we are able to provide these services in-house, including wealth planning, tax planning and preparation, insurance and investments. The idea is that you have one team working to create one, coordinated wealth plan for you. This integrated approach is designed to simplify the process, which can be especially helpful during a time of grief.

Our teams will coordinate with your estate planning lawyer and any other professionals and work with you on a wealth plan that makes sense for you as you move forward. Learn more about how we'll help you navigate this challenging life event. We're committed to being here for all of your life's events, both the expected and the unexpected. We'll listen first, then design a wealth plan that fits your life and changes along with you.

Lisa Wall serves as Director of Wealth Management Services for the firm. If you would like assistance, please contact her at 319-233-5225 or lwall@hoganhansen.com.

HOGAN ♦ HANSEN

A Professional Corporation

Certified Public Accountants and Consultants

Accountants with *Personality*

1601 Golden Aspen Drive, Suite 107

Ames, IA 50010

1201 SW State Street, Suite 101

Ankeny, IA 50023

2750 First Avenue, NE, Suite 150

Cedar Rapids, IA 52402

200 North Adams Avenue

Mason City, IA 50401

3128 Brockway Road

Waterloo, IA 50701

www.hoganhansen.com

RETURN SERVICE REQUESTED

PRSRT STD
U.S. POSTAGE
PAID
Belmond, IA
PERMIT NO. 54

I had plastic surgery
last week - I cut up
my credit cards.

- HENNY YOUNGMAN

*If you want your children
to listen, try talking softly
to someone else.*

- ANN LANDERS

**If you think you are too small to make a
difference, try sleeping with a mosquito.**

- DALAI LAMA

**Live your
life and
forget
your age.**

- NORMAN VINCENT PEALE

Nick Aarsen
Principal

Jennifer Decker
Principal

Steve Duggan
Principal

Damian Hurmence
Principal

Laura Monaghan
Principal

Dennis Muyskens
Principal

Lisa Wall
Principal

Kristi Wick
Principal

Ames

Ankeny

Cedar Rapids

Mason City

Waterloo

This newsletter is issued quarterly to provide you with an informative summary of current business, financial and tax planning news and opportunities. Do not apply this general information to your specific situation without additional details and/or professional assistance.