



**SPECIAL POINTS OF INTEREST:**

- Proper record keeping helps reduce the risk of an audit
- Seniors may be able to alleviate money worries and better enjoy life and retirement
- What type of business should I be?
- A new law protects military spouses from being taxed

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# Taxing Times

*Dedicated to helping our clients keep the money that belongs to them through a focus on tax.*

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## Are You Crossing the Entrepreneur Minefield?

Bryan Martin had always dreamed of owning his own business, but, according to a recent Time.com article, it wasn't until insurance giant Zurich shuttered their regional Indianapolis office where he worked that he decided to strike out on his own.

"It's the scariest thing I've ever done," the article quoted Martin, who had just turned 51 and has a wife and 13-year old twins. "Right now, I'm just worried about financially making all this work."

Are you out there with Martin? Has the rising unemployment rate sent you into the entrepreneur minefield? Are you crawling along like a soldier, poking the ground with a stick, trying to find, identify and avoid the tax mines just to pay your

mortgage and put food on the table? A growing number of the nation's jobless are doing just that.

But as the ranks of brand new entrepreneurs swells so is the likelihood of errors and even, dare I say it—IRS audits! The IRS audits individual returns with Schedule C income at twice the rate of those without. Since the IRS' Tax Gap analysis identifies underreporting of business income as a \$109 billion problem, accounting for more than half of the total underreporting by individuals, the chances of those audits increasing are pretty good.

Many new entrepreneurs, strapped for cash, try to cut corners and make the rookie mistake of forgoing the use of accountants and attorneys and picking up TurboTax® to handle their taxes on their own.

The Internal Revenue Code is fraught with obstacles and the wide-eyed rookie is unlikely to

recognize the danger signs.

"My neighbor told me I could do this," won't stand up against the glare of an IRS examiner. Many budding business owners hear about the generous tax benefits for business expenses to travel and entertainment to the holy grail of tax deductions, the home office. But most have no clue what is allowed and what will send up a red flag. There are many misconceptions about the tax laws and the wrong decision can turn dreams into nightmares.

The sheer magnitude of available tax breaks causes problems for many rookies. When you're a self-employed small business owner, nearly everything looks like it should be deductible. After all, many feel they don't do anything that isn't business related.

But the pearly-gate vision of *Continued on page 2*

*The Internal Revenue Code is fraught with obstacles and the wide-eyed rookie is unlikely to recognize the danger signs.*



## The Secret to Thousands in Tax FREE Income

Reverse mortgages can provide today's cash strapped senior with money needed today, while eliminating mortgage payments for life.

Everyone's needs are unique, but a desire to enjoy a full life is universal...often this means having enough money to pay your bills and relieve some of the anxiety that comes from rising medical expenses while trying to budget, in most cases, a fixed income.

A reverse mortgage enables homeowners 62 and older to convert part of the equity in their homes into TAX-FREE income. You do not have to sell your home, give up title, or take on a new monthly mortgage payment. In a reverse mortgage, the lender makes payments to you. Those pay-

*Continued on page 3*

## Thinking About Starting A Business?

One of the first questions we often get from budding entrepreneurs is, “What type of business should I be?” and the answer is always...

“That depends.” When starting a new business, it is important to begin with the right type of entity for you. There are several considerations to think about when deciding what type of business entity to use for your new business. Each type of entity has its own unique features. Some factors to consider include:

- How do you want profits and losses to be treated?
- Should it be easy for the company to allow owners to sell or transfer their ownership?
- Are you concerned with personal liability?
- Do you want it to be easy to withdraw cash from the company when it is available?

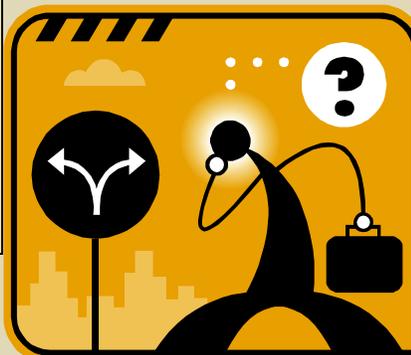
All of these are important questions to ask and each answer narrows the type of business entity you might want to become.

There are four common entities. Each of the following business entities has its own formation and operating requirements:

- Sole proprietorship
- Corporations
  - \* C and Sub Chapter S
- Partnerships
  - \* General Partnership
  - \* Limited Partnership
- Limited Liability Companies

A sole proprietorship is the quickest and easiest entity to form. You just start doing business. However, the owner assumes all responsibility for operations

*One of the first questions we often get from budding entrepreneurs is, “What type of business should I be?” and the answer is always...*



and finances. In addition, the owner assumes unlimited risk of his personal assets. The income is taxed at the individual owner’s tax rate and self-employment taxes are paid on the income.

C Corporations are separate from the owners. It provides the shareholders with the most protection from personal liability. The income is taxed at the corporate level. The income is often referred to as being “double taxed”. This is because the corporation pays taxes on the income and any distribution from the company is taxable income to the shareholders as well. The S corporation is similar to the C corporation with the exception of double taxation. All income flows through to the shareholders and taxed at their respective income tax rates.

General partnerships simply require an agreement between two or more individuals to jointly own and operate a business. Income and management is shared among the partners and each partner is personally liable for the debt of the partnership. The income is reported on each partner’s tax return based on ownership. The limited partnership offers some of the partners limited liability. The general partner, who assumes personal liability, manages the partnership and the limited partners contribute capital, but have limited liability and assume no role in management.

Limited liability companies are a hybrid type of entity with characteristics of both a corporation and a partnership. The company is run similar to a corporation with members/owners owning and managing the company and the income is “passed through” to the individual owners and taxed at their individual income tax rate.

There is no one right answer to the question “What type of business should I be?” Contact us today if you’d like to review your business formation options from a tax standpoint. We would be happy to help you understand your choices. ☼

## Are You Crossing the Entrepreneur Minefield? - continued from page 1

deducting everything leads many an entrepreneur to forget the rules of mine clearing and wander off course into profit-bleeding blunders. Some of the most common mistakes include poor record-keeping, questionable tax deductions, putting expenses on the wrong tax form or line and failing to pay quarterly estimates to Uncle Sam.

It’s critical that businesses maintain books, records, separate bank accounts and credit cards from their owners. In the event of an audit, people often lose, not because they were trying to get by with something, but because of poor records. When a taxpayer can’t produce records to match the tax

return, the auditor smells blood. They have spotted a weakened wildebeest separated from the herd and they are going in for the kill.

Make no mistake, it will be painful.

But it doesn’t have to happen. With the proper records and the right advisor you can successfully chart a course across the tax minefield and come out unscathed.

If you’ve entered the minefield, or are thinking of entering it, remember, our experience can help you identify the obstacles, spot the dangers and chart a successful crossing. ☼

# The Secret to Thousands in Tax FREE Income—continued from page 1

ments can be received in a lump sum, monthly payments, or in combination. The versatility of reverse mortgages has been utilized by hundreds of thousands of seniors since its conception in 1989. Obtaining a reverse mortgage has helped seniors throughout the country alleviate money worries or simply make their lives and retirement more comfortable. Here is an example of how a reverse mortgage benefited a local Mobile, Alabama senior:



Reverse mortgages can provide today's cash strapped senior with money needed today, while eliminating mortgage payments for life.

By executing a reverse mortgage Sybil paid off her original mortgage and received a lump sum of \$11,000 in cash at closing for her to use however she wished. She will also receive monthly payments of \$191 for the rest of her life unless she sells her home. Sybil got to keep her house. Not only that, but she will never have to make another monthly mortgage payment and she still receives her entire Social Security benefit of \$441 per month.

A reverse mortgage changed Sybil's life for the better... and it might be your secret answer to the rising cost of living. By Brian and Jamie Frampton. The Framptons are independent mortgage brokers with

Sybil, now in her seventies, recently lost Bob, her husband of many years. She had no family to lean on and the loss of Bob's income was devastating. Her Social Security benefits were \$441 per month while her house payment alone was \$981. There was no way in sight to make the ends meet. She was four months behind in payments and was about to lose her home.

locally owned and operated Mortgage Team 1, Inc. in Mobile, Alabama. Together they have over 21 years of experience in the mortgage industry and are dedicated to educating their clients about their mortgage needs and options. For more information contact Brian or Jamie at (251) 445-2070—Mobile AL, NMNLS #'s 213224; 63979; 39239. ☼

## MILITARY SPOUSES FINALLY ABLE TO MAINTAIN SAME RESIDENCE AS SERVICE MEMBERS

A new law protects military spouses who move because their spouse is posted for military duty to a new station from being taxed for work performed in states where they are living.

President Barack Obama signed the Military Spouses Residency Relief Act, an amendment of the 2003 Service Members Civil Relief Act, on November 11, 2009.

"This act, among other things, would provide that when a service member leaves his or her home state in accord with military orders, the service member's spouse may retain residency in his or her home state for voting and tax purposes, after relocating from that state to accompany the service member," the president said in a White House statement.

The new law represents a fundamental change in tax law for military spouses. For more than 60 years, service members have had the privilege of retaining residency in the same state regardless of where they were stationed. This means that service members pay income taxes to their home state, and they don't have to change their driver's license or vehicle and voters registration during each permanent change of station.

Now spouses have the same privileges.

Under the old law, a service member's spouse had to change legal residence with every move. Now, the spouse can retain the same legal residence as the active-duty service member as long as they once shared that legal residency.

For all the positive benefits the new law offers military spouses, it can be confusing. For additional information or assistance with the new law contact our office or your nearest legal assistance attorney. ☼

### Meet Buster

Buster is our eleven year old Jack Russell Terrier. He came to us in a round about way. My daughter, Kathy, and her husband (at the time fiancé), Todd, were still in school at Ole Miss. One of Kathy's professors had a litter of Jack Russell Terriers and they were soooooo cute. Kathy and Todd thought it would be a great idea to give his parents a puppy as a present. They declined the generous offer. Since Kathy and Todd were soon to be wed, they pleaded that if Carita and I would only keep the new puppy a few months, when they were married they would be able to take him themselves. You ever heard the saying about the best laid plans of mice and men? Well, Kathy and Todd got married alright, but there wasn't room in their tiny apartment for any dog, much less one who wanted to run as much as Buster. And run he did. In Buster's younger years he would run circles in our backyard for at least 30 minutes at a time. The track he made for himself had a bank that surpassed Talladega. He'd get outside late in the afternoon when it was getting cool and run nonstop. The track isn't quite as evident as it was a few years ago, but on a cool spring afternoon you can still sometimes see a white blur go by the window. For the Harry Potter fans out there, Ron Weasley's Patronus is a Jack Russell Terrier.



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Happy St. Patrick's Day!



## Clearly Defined Goals

The inability to clearly and concisely enunciate goals when challenged reveals a lot about an individual. Most mediocrity and unhappiness is directly linked to simply failing to clearly decide what to do. And most people, including many in captain's chairs, in business and elsewhere—are in a perpetual fog. They see their future like Mr. Magoo sees the world around him. Consequently, if they move forward at all, it must be very cautiously and hesitantly, like groping in the dark. You can accurately predict whether a person's life is going to be any different a year from today based on how well or how poorly they answer the goals questions.

~Dan Kennedy

## We Believe in Referrals

We really believe in the process of referrals, so part of the service we provide is to be sure to refer our clients and associates to other qualified businesspeople in the community.

Below you'll find a list of areas in which we know very credible, ethical and outstanding professionals. If you're looking for a professional in a specific area we've listed, please feel free to contact us. We will be glad to put you in touch with the people we know who provide these services.

- ◆ Residential Organizer
- ◆ Optometrist
- ◆ Attorney
- ◆ Handyman
- ◆ Dentist
- ◆ Nail Salon
- ◆ Realtor
- ◆ Financial Advisor
- ◆ Mortgage Broker
- ◆ Used Auto Dealer
- ◆ Caterer
- ◆ Landscaper
- ◆ Bathroom Remodeler
- ◆ Plumber
- ◆ Photographer
- ◆ Veterinarian
- ◆ Printer
- ◆ Chiropractor
- ◆ Pressure Cleaning Service
- ◆ Massage Therapist
- ◆ Auto/ Home/ Life Insurance
- ◆ Building Materials and Supplies
- ◆ Medicare Advantage Program
- ◆ Advertising Specialties

Discover the secrets of "Magnetic Marketing" for the New Economy. Learn about marketing strategies that make ad agencies cringe, that confound your competitors, and turn ordinary businesses into extraordinarily successful money magnets. Come hear Steve Clark on Thursday, April 8, 2010. Call (251) 633-4070 or e-mail [zevac.lindsey@comcast.net](mailto:zevac.lindsey@comcast.net) for more info.

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