

LINDSEY & WALDO

CERTIFIED PUBLIC ACCOUNTANTS

"You see the numbers, we look for the opportunities."



SPECIAL POINTS OF INTEREST:

- Financial risks
- Are you in or out?
- Unbelievable write-offs
- Contractor or Employee?
- Referrals, Richard's reads, and more...

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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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5 Threats to Your Financial Life

It pays to take a broad view of the risks to your financial well-being. Here are 5 of the top threats -- other than weak retirement planning, which, obviously, is a huge, complicated topic that deserves much more space than I have here.

Illness or Injury

While we would like to believe that disability "will never happen to me," it will happen to someone. Social Security Administration statistics indicate that over 25% of 20 somethings will become disabled before they retire. Injuries are actually only a small fraction of the claims. Back pain, arthritis, and other musculoskeletal disorders are the most common disabilities. Next in line is cancer.

Although the average disability lasts for over three years, fewer than half of Americans have enough liquidity to cover three months expenses. Now there's a real threat. Consider a group and/or individual disability insurance with an own-occupation definition.

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Understanding Your Options Under the Partnership Audit Rules

Partnership audits are different from all other audits.

The IRS has a set of rules called the "centralized partnership audit regime." Under these rules, if the IRS audits your partnership, it deals directly with the partnership as a whole, not with each partner separately. If the IRS finds that more tax is owed, the partnership itself pays the tax, not the individual partners. This system makes it much easier and faster for the IRS to audit partnerships and collect any additional taxes, especially for partnerships with many partners or partners who change from year to year.

What Does It Mean to Opt-Out?

Some smaller partnerships can choose to "opt out" of these rules each year when they file their tax return. If you opt out, any IRS audit or tax changes are handled with each partner individually, just like before these rules existed.

Pros of Opting Out:

- Any IRS audit or tax changes are handled directly with each partner, not the partnership as a whole.
- Only the partners from the year being audited are responsible for any extra taxes, not the current partners.
- The partnership can fix mistakes by filing amended returns, which is simpler than the process required under the new rules.
- You avoid some of the extra paperwork and rules that come with the new audit system.
- Each partner has more control and certainty over their own tax situation.

Cons of Opting Out:

- If there's an audit, the IRS will deal with each partner separately, which can mean more paperwork and hassle for everyone.
- There's no single, partnership-wide solution—partners might end up with different results if they're audited at different times.

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Understanding Your Options Under the Partnership Audit Rules—*continued from page 1*

- Each partner is responsible for paying any extra taxes, which can be tricky if partners have changed since the year being audited.
- The IRS might focus on individual partners, which could mean more audits for some people.
- The partnership has to make this election every year and notify all partners, so there's a risk of missing a deadline.



Our Recommendation for Simple Partnerships

For most simple partnerships—especially those with a small number of partners who are all individuals or certain trusts—opting out of the centralized audit rules is usually the best choice. It keeps things straightforward and ensures that only the partners involved in the year under review are responsible for any tax changes.

Let us know if you have questions or want to discuss what's best for your partnership. ✕

Is Your Worker an Independent Contractor or Employee?

Who is an "employee?" The tax code doesn't provide a uniform definition.

The question of whether a worker is an independent contractor or employee for federal income and employment tax purposes is a complex one. It is intensely factual, and the stakes can be very high. If a worker is an employee, the company must withhold federal income and payroll taxes, pay the employer's share of FICA taxes on the wages plus FUTA tax, and often provide the worker with fringe benefits it makes available to other employees. There may be state tax obligations as well. These obligations don't apply for a worker who is an independent contractor. The business sends the independent contractor a Form 1099-NEC for the year showing the amount paid to the contractor (if the amount is \$600 or more), and that's it.



Under the common-law rules (so-called because they originate from court cases rather than from a statute), individuals are generally employees if the enterprise they work for has the right to control and direct them regarding the job they are to do and how they are to do it. Otherwise, the individuals are independent contractors.

Some employers that have misclassified workers as independent contractors are relieved from employment tax liabilities under Section 530 of the 1978 Revenue Act (not the Internal Revenue Code). In brief, Section 530 protection applies only if the employer: filed all federal returns consistent with its treatment of a worker as an independent contractor; treated all similarly situated workers as independent contractors; and had a "reasonable basis" for not treating the worker as an employee. For example, a "reasonable basis" exists if a significant segment of the employer's industry has traditionally treated similar workers as independent contractors. Section 530 doesn't apply to certain types of technical services workers.

Individuals who are "statutory employees," (i.e., specifically identified by the Internal Revenue Code as being employees) are treated as employees for Social Security tax purposes, even if they aren't subject to an employer's direction and control (i.e., even if the individuals wouldn't be treated as employees under the common-law rules). These individuals are agent drivers and commission drivers, life insurance salespeople, home workers, and full-time traveling or city salespeople who meet a number of tests. Statutory employees may or may not be employees for non-FICA purposes. Corporate officers are statutory employees for all purposes.

Individuals who are statutory independent contractors (i.e., specifically identified by the Internal Revenue Code as being non-employees) aren't employees for purposes of wage withholding, FICA, or FUTA and the income tax rules in general. Qualified real estate agents and certain direct sellers are statutory independent contractors.

Some categories of individuals are subject to special rules because of their occupations or identities. For example, corporate directors aren't employees of a corporation in their capacity as directors, and partners of an enterprise organized as a partnership are treated as self-employed persons.

It's critical for an enterprise to periodically review the status of its workers to see if they're properly classified. ✕

5 Threats to Your Financial Life—*continued from page 1*

Market Volatility

The recent market heights have blurred our memory. It wasn't that long ago that the stock market crashed, losing over 50% of its value seemingly overnight. "Average" returns can be affected by the timing of both investments and distributions, especially if a down market occurs during the early stages of distributions. Consult your financial advisor for strategies to reduce that risk.

Health Care

Health insurance premiums and deductibles continue to climb sharply. A Health Savings Account (HSA) allows tax-deductible contributions and tax-free withdrawals for qualifying expenses. Long-term care insurance provides a huge what-if for retirement planning.



Lawsuits

The United States is reportedly home to 80% of the world's attorneys. Most Americans would have difficulty affording the legal fees on either side of a case. Without proper protection, the losing party could suffer financial ruin.

The first essential line of defense is legal insurance followed by liability protection on auto and homeowner's policies. An umbrella policy can extend your coverage beyond the normal limits of these coverages to add even more security.

Taxes

Everyone's favorite uncle will always be there to collect his share. Working with qualified advisors (that's us) can help you limit this burden.

Don't overlook the funding of retirement accounts in the chase to reduce current year taxes. In the long-term, this may not be a tax-savings, but rather a compounding tax postponement. People often forget, or downplay, the effect income taxes will have on their retirement distributions. ✖

Best Write-Offs Ever!

The Working Vacation

Really? I'll admit, I'm not sure I would have tried this one. The owners of a dairy business went on an African safari and claimed the vacation as a business expense, justifying the visit by stating that much of the dairy's promotional activities and marketing efforts involved wild animals.

Now that's a stretch... a safari? Come on. In their infinite wisdom, the IRS deemed the trip "ordinary and necessary" and let it slide.

(He would like a chance to visit the dairy.)



Keep the Customers Coming Back



It's got to be a gutsy move to claim beer as a business expense if you don't own a bar or restaurant, or, for that matter, anything related to the food industry. Yet, a gas station owner successfully wrote off the free beer he gave to customers as a business expense. He did end up in tax court, but the final verdict ruled in his favor.

In an interesting, and unfair twist, an Oklahoma businessman did the same thing by claiming as "entertainment" several cases of whiskey that he gave to his clients, was denied the business expense.

(Apparently, you can write off beer, but not whiskey.)



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Looking for Someone You Can Rely On?

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.

- ◆ Travel Agent
- ◆ Port Facility
- ◆ Attorney
- ◆ Bathroom Remodeling
- ◆ Custom Embroidery and Monogramming
- ◆ Auto and Home Insurance
- ◆ Branding and Advertising
- ◆ Home Inspector
- ◆ Banker
- ◆ Realtor
- ◆ Printer
- ◆ Financial Advisor
- ◆ Signs
- ◆ Social Media
- ◆ HR Support
- ◆ Mortgage Lender
- ◆ Roofer
- ◆ Foundation Repair

What I'm Reading...

NOW
Tokyo Express by Scott W. Cook

RECENTLY
Wild Card by Logan Ryles



Common Myth or Common Sense?

MYTH: If you don't pay the IRS, they can send you to jail.

SENSE: If you have accurately filed your tax returns, but just haven't paid the tax, you cannot get sent to jail. While not filing your tax returns is a crime, owing the IRS money is not.

But, don't break out your happy dance just yet. While jail time may well be the worst thing that could happen, it's not the only punishment the IRS can dish out. Ignoring your IRS debt can lead you to...

- Wage garnishments;
- Seizure of your bank accounts and real estate;
- Seizure of your Social Security benefits, 401(k)s, and IRAs;
- Seizure of your cars and boats;
- Seizure of commissions or other monies owed to you.

Not a pretty picture is it?



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