



SBLC WEEKLY

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HAVE YOU HAD YOUR PERAB TODAY?

SBLC President and General Counsel John S. Satagaj appeared before the tax subgroup of the President's Economic Recovery Advisory Board (PERAB). SBLC, along with our colleagues from NFIB and the Chamber, in our capacities as the co-chairs of the Coalition for Fairness in Tax Compliance, made a presentation to Laura Tyson, Chair of President Clinton's Council of Economic Advisors, and Austan Goolsbee, a member of this President's Council of Economic Advisors.

The Administration is seeking input on options for tax reform from outside groups so they asked the PERAB to take on the role. The PERAB is comprised of business and labor representatives and academic experts and is chaired by Paul Volcker. The tax subgroup's focus is on gathering as many ideas and options as possible and identifying the pros and cons of each option in three specific areas: tax code simplification, enforcement, and corporate tax reform.

Among the points we made in our joint presentation:

Tax Complexity is a Major Problem for Small Business.

Do Not Separate the Business from the Business Owner.

Cash Flow is a Concern for All Small Businesses, Taxes Make it Worse.

Proposals Addressing Compliance Have Only Made These Problems Worse

Small Business Owners Need Simplification and Certainty

Expensing Puts Money Back Into the Business and Reduces Complexity.

Cash Accounting Reduces Complexity.

Providing a standard home office deduction would encourage more small businesses to claim the deduction, reducing their cost of doing business and their tax burden.

Small Business Owners Must Plan for the Estate Tax..

Keep Individual Rates Low, Small Business Do Not Pay Corporate Taxes.

AND THE WINNING NUMBER IS...

The IRS is about to launch a "National Research Program" (NRP) focused on employment taxes. An NRP consists of intensive audits followed by analysis. NRPs are used to collect data so that the IRS can hone its profiles for future audits. The infamous tax gap report was based largely on an NRP of individual taxpayers. The IRS has completed but not released the results of an NRP on S Corporations.

The selection of taxpayers for an NRP audits is random, although the IRS is seeking to have a statistically valid sample of taxpayers. If you are selected for an NRP audit, it does not mean the IRS has chosen you because it has identified a problem with your return. Statistically, the odds of being selected for an NRP audit are very small. In this case, the IRS will be selecting six thousand taxpayers for the audit. Presumably, the taxpayers will be businesses of all shapes and sizes. The audits are far more thorough than the typical problem-generated audit.

This particular audit will focus on employment-tax-related matters such as whether individuals have been properly classified as employees or independent contractors; whether fringe benefits are properly classified and reported as either taxable or nontaxable income; whether there are non-filers among the employees and/or independent contractors; and whether the compensation of the officers of the company is reasonable. (This last issue involves income an officer might receive that is not classified as wages, such as dividends, and thus not subject to employment taxes, not whether the officers are paid too much. So the term "reasonable compensation" is a bit of a misnomer.)

The IRS is expected to launch the audits in November.