Dorchester Advisors
Money worked harder

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Things You Control

Avoiding an IRS audit

Its Tax time and there are simple precautions you can be aware of so you don't accidentally trigger a needless IRA audit.

First, don't file a return before you have all your **final** 1099s and W-2s. These forms are often revised – so make sure they are the final versions.

High Income Taxpayers (E.g. Executives and Retirees)

Make sure you report income from the following forms (if they apply to you). These forms are sent independently to the IRS and they match them to what you report on your taxes. Discrepancies may trigger an audit:

- regular wages (W-2),
- Social Security (SSA-1099),
- pensions, IRA distributions, and annuities (1099-R),
- partnership income (K-1),
- income from an independent contractor gig (1099-NEC),
- rent or royalties (1099-MISC),
- real estate sale proceeds (1099-S), and
- income from interest (1099-INT), dividends (1099-DIV), or capital gains (1099-B).

If your company allows you to work from home and you are a W-2 employee, don't even consider taking the home office deduction.

Business Owners

Business losses. Most businesses lose money in the early stages. But if your business is losing money year after year, it could raise suspicions that it is simply a hobby.

> *You may love golf. You may even teach beginners how to play. But if your golfing business can't turn a profit, the IRS may decide it's a hobby. Or it may raise suspicions that you are misreporting income or expenses. This can be especially true for cash-based businesses.*

That doesn't mean you shouldn't report losses. Keep detailed records for at least seven years demonstrating legitimate expenses.

The **home office deduction** is becoming increasingly popular, but you must be self-employed and conduct most of your business from home.

Starting in tax year 2013, the IRS began allowing taxpayers to take what they call the simplified option. It is a standard deduction of $5 per square foot, a maximum of 300 square feet. It's much simpler than the standard method, and there is no recapture of depreciation upon the home's sale, but your deduction will probably be lower.

Your income may fluctuate. But wild swings in income can put an unwanted spotlight on your tax return because it may raise suspicions that you may not be reporting all of your income.

Consider a note when filing if expenses or income changes dramatically. Most software programs will let you include documentation that sheds light on your unique circumstances.

A Less common but important audit trigger:

If you have $10,000 or more in foreign accounts do file a FinCEN Form 114 – "Report of Foreign Bank and Financial Accounts (FBAR)", if the IRS believes you reported incorrectly or have misreported values on the FBAR, you may be subject to an audit.

Pro Tip

It's impossible to bulletproof a tax return completely, and high-income taxpayers will come under more scrutiny simply because of their income. But you can keep good records

Good record-keeping and reliable tax software (or a good CPA) can remind you of the previous year's activities and forms used which can help eliminate errors.

> *Create a folder for tax forms that are mailed in. Create an eFolder for tax forms that you download or get by emails. E.g. most investment firms send an email alerting you that your 1099's are final and ready to be downloaded.*

Good luck and Speedy filing!

As always, we encourage you to consult with your tax advisor before implementing any tax strategies.

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Why Things You Control are Important

In Investing (as in Life) we can: hope, worry or plan.

I believe that when we hope or worry, we are largely looking at the future and are focused on things we do not control. We hope the markets will get higher and we will make money. Or we worry that markets will collapse and we may lose all our money. And yet, deep down in our hearts, we know that whether our thoughts are optimistic or pessimistic they simply do not influence future outcomes.

We can also look at the future plan-fully. When we do this we tend to focus on the things that we do control. And, by picking activities that are in our control and that are important to our future we have a far better chance of achieving our goals. Of course, life holds few guarantees! So, for example, while we all hope that our favorite stock pick will be a high performing stock, not implementing a properly diversified portfolio is plainly irresponsible to our financial well-being.

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Founder and Investment Advisor

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Our Financial Planning Principles

Without a Purpose, accumulating money can become a soul-less task. A financial plan gives your savings a purpose.

It's OK to be broke when you are young - not so when you are old: Studies show that people typically tolerate risk and uncertainty better when they are younger.

Getting down from Mount Everest is as important as getting up: Pay as much attention to accumulating money before you retire as you do to consuming it after you retire.

Planning is life-stage dependent: The principles of saving and investing money in your early years are very different from the techniques that you use in retirement to generate a reliable income stream.

Financial confidence comes from being on top of your taxes, protecting yourself from risks, having a clear picture of your investments and debt, and specific targets for saving and spending.

Achieving financial independence requires a careful balancing of Income, expenses, taxes, and savings. This balancing act (planning) is not intuitive, nor can it be done well on the back of an envelope, but effective plans do give more peace of mind.

Identify your true risks (in contrast to investment volatility, labelled as risk, or uncertainty) and take action to manage them using the correct risk management tools. Pick the right tools for the job - investments won't manage the risks you face, risk products (insurance) won't deliver the growth and flexibility you need.

Taxes remain important even after you retire. However, in retirement your investments become the principal source of your income and hence drive your taxes.

In matters of health: it's your body but your doctor knows better how your body works. So it is with your money: A partnership with an advisor will help you to reach your financial goals - you save, they help your savings grow. Together you can get there faster.

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