



TORCHLIGHT

TAX & FINANCIAL SOLUTIONS

The Torchlight Tax Guide

Guiding Your Way Through the IRS Labyrinth

Save Money By Doing Your Taxes The Right Way!

*Lower your tax bill without shortcuts that put you at risk.
Expert knowledge that gets you every tax break the law allows.*



by Dave Horwedel, EA

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The purpose of this booklet is to help people on their taxes. It is not written in a ponderous style, and if an answer applies 99% of the time, I will give it straight and not spend three pages detailing the exceptions and the fine print about the 1% that make the whole unintelligible. I am also available for questions and am happy to hear from you. I cannot answer client-specific questions accurately without all the data. Feel free to call Torchlight Tax. I will be glad to help you, You can contact me at the numbers and emails listed on my website at Torchlighttax.com.

The guide format is Question and Answer, abbreviated Q and A.

Q. What is an EA?

A. An EA is an Enrolled Agent, which is the top credential issued by the federal government to certify a tax expert. An EA is a tax expert, and can also represent you before the IRS just like an attorney can. Many people confuse the EA with the CPA. They are similar, but the CPA is state licensed, while the EA is federally licensed and can represent a taxpayer in any state. Also, the EA is totally specialized in taxes, and CPAs have other specialties as well.

Q. Do I need to file my taxes?

A. If you made more than the minimum threshold, which if you worked you probably did, you need to file. If you want an exact answer for your exact situation, contact me.

Q. If I file my back taxes, will I get into trouble?

A. If you have un-filed back taxes, you are already in trouble. If you come forward and report them, your trouble diminishes.

Q. But what if I can't pay my back taxes?

A. You are still better off. The penalties for not filing are much steeper than for filing and not being able to pay. You can easily get an installment agreement to pay over five years. And if you can't afford to pay that, then you can likely get an Offer in Compromise or even an un-collectible status. The stable datum is your are much better off to file. Contact my office and we will help you.

Q: How far back do I have to file?

A. If you have not filed, the usual is 7 years.

Q. But I don't have records. How do I file?

A. You can get records from the IRS as to what they shown for your income. Also, records can be re-



constructed. The best action is to contact an EA like myself. I will get the records for you and assist in calculating your income and deductions. The goal is to file the taxes and end off on the IRS worry, without paying an exorbitant tax bill. This requires expertise.

Q. What if I made a mistake on my tax return?

A. Contact an EA. You can file an amended return. When you file the amendment, you must make sure all the errors are corrected. You are not going to get yourself into more trouble by stepping forward and correcting an error. But use an EA. He can represent you before the IRS and make sure they follow their own procedures.

Q. Can I trust the IRS?

A. Most IRS employees, like most people in general, are decent people. They are generally reliable. However, as your financial security and peace of mind can be put at risk by incorrect tax advice, you need a competent tax adviser on your side. The laws and regulations are complex, Over-worked untrained staff can make mistakes. You are wise to have someone who knows tax represent you when dealing with the IRS.



Q. How do I lower my tax bill?

A. This is an area that requires considerable expertise. Good records certainly help. Correct planning also helps. The summer is a good time to consult with a trusted tax professional and go over your exact situation. The law is too complex for a one-size-fits-all answer. That being said, I will mention a couple things. If you are self-employed or use your car as an employee, keep track of your mileage. Lots of people keep gas receipts and repair receipts. And this is fine. The IRS allows a standard business mileage deduction of \$.56 per mile. At \$.56 per mile, if you have an economical car, you might come out ahead. If you do 20,000 business miles per year, that is \$11,200 of deductible expense. 1000 gallons of gas is only a few thousand dollars. Another area of huge potential savings is incorporation. The self-employed pay 15% self-employment tax in addition to income tax. If they incorporate, the dividend income they take is not subject to self-employment tax. This is an area of much mis-interpretation and confusion. So if you are considering it, contact a trusted tax expert. There are MANY other tax breaks out there. A little planning can save a lot of expense.

Q. Can I lower my taxes by getting into a lower income-tax bracket?

A. Sure. But you also lower your after-tax income. Lowering your income to save on your taxes is self-defeating. Now, sometime one can defer one's income into the future and save tax dollars. Or maybe you invest in business equipment that is a deductible expense and increases future income. This is worthwhile if it does increase in future income. Just don't get stuck in a mindset where you are trying to lose money to save taxes. Contact a competent tax professional for a consultation. At Torchlight tax, we are happy to give you a free initial consultation to maximize your after tax income.

Q. My spouse has some back IRS debts that will soak up my refund. Can I file separately?

A. Yes, but married filing separately usually winds up with a larger tax bill. It can be MUCH larger. When a pro does your taxes, he can have the computer do it both ways, and give you both results. Usually, the penalties for separate filing are too great. However, there is a way to apply for "injured spouse relief" and still get your

refund, even if filing jointly.

Q. I requested an Offer in Compromise but it was disallowed. I can't afford to pay my taxes. What do I do?

A. Contact an Enrolled Agent you can trust. This will need individual review.

Q. I did not keep an installment agreement I made. Now what?

A. Contact an enrolled agent you can trust. This will need individual review.

Q. My books are a mess and I can't figure out how to do my taxes. What do I do?

A. Contact an enrolled agent you can trust. He may employ or be a competent bookkeeper himself, and he can at least recommend one. Also your books may not be as bad as you think. The IRS taxes you on income. They do not necessarily require your Quickbooks are in perfect order and fancy bookkeeping. Your bank accounts may actually have all the data you need. A good EA can look over what you have and work out a handling.



Q. Do I have to pay taxes on my gambling winnings?

A. Yes. Make sure you keep track of your losses too, as you can deduct these up to the amount of your winnings.

Q. How does depreciation work?

A. If you own a business asset, such as a house for rent or machinery in a business, it can depreciate and this can lower your tax bill. This is too complex for this simple guide. Contact my office and I can go over your exact situation to use depreciation to lower your tax bill.

Q. I have employees and have not paid my payroll taxes. What do I do?

A. Run, don't walk, to a trusted EA or Accountant. The IRS plays hard ball on payroll taxes.

Q. I moved out of state on a job. And my employer is still deducting state income taxes for the state I am no longer in. Is this correct?

A. Probably not. You can recover the money by asking for a refund. Get with a tax pro you can trust. Also you can contact your employer and tell him to stop withholding. State income tax is based on where it is actually earned.

Q. My tax person has been doing my taxes for years but is not an EA or CPA? What should I do ?

A. Many not formally trained tax preparers do a decent job. And if you have a simple return with no complex deductions you may be fine. That being said, a competent, experienced tax preparer should easily be able to study up for and pass the EA exams. Encourage your preparer to take the EA exams. You can also contact us with your tax data, and we can see if we can save you tax money in a free initial consultation. If our analysis shows legitimate ways to save you your hard-earned dollars, it is time to switch.

Q. Will charitable donations lower my tax bill?

A. Probably. However, your charitable and others deductions must be greater than the standard deduction before you get this benefit. This is worth a little planning. In some cases, an individual would be better off to borrow and make a contribution well above the standard deduction one year and pay it off the next year while

taking the standard deduction. Most people who are not paying mortgage interest or large charitable or medical expenses wind up saving with the standard deduction. This is easy enough for a tax pro to calculate. Get a free consultation for some tax planning. Our door and phone lines are open.

Q. Can I do my taxes from home?

A. Yes. It is easy enough. Many of my clients send me the data I need over the Internet. I also have done video conferences. Of course, some prefer to come down to our office, and that works too.

Q. If I owe back taxes, can the IRS levy my assets?

A. Probably. You need to get with a competent tax pro and sort it out. Do not ignore it. If liens and levies are already in place, you are already behind. Get competent tax help FAST.

Q. Is there an IRS statute of limitations?

A. Yes, In general, it is ten years from the time the tax was assessed. It can be tricky as it can be extended in certain cases.

Q. What is un-collectable status?

A. It means the IRS has no way to collect the tax. If you have no assets they can seize and if your income is low, you can get this. You do not have to be homeless and on the streets for this to apply. You may need some help to determine if the IRS can come after your assets. If you have seize-able saleable assets, the IRS can levy them. Once again, you need a good EA. Contact my office for a free consultation.

Q. Can the IRS penalize me for not paying for Obama-care?

A. Yes, they can and they will. There are some exemptions that may save you the penalty. They fall under the heading of financial hardship. Things like a threatened power shutoff. If you kept the threatening letter, it can save you the penalty.

Q. Can an EA do corporate taxes?

A. Yes, EAs are specially trained to do corporate taxes.

Q. What does Torchlight Tax and Financial Solutions specialize in?

A. Taxes, Bookkeeping and Payroll Taxes. This may sound kind of broad, but actually it is not. You see bookkeeping is a skill necessary to easily and accurately calculate a tax bill. So an EA has a vested interest in competent bookkeeping. And payroll goes right along with bookkeeping. It is not a difficult subject at all for a specialist. But for Joe Painter running a 5 man crew, it can be a very complex subject. And it is a bit silly for Joe to get wrapped up into all the laws and rules of payroll. So we provide this service to our clients as well. This allows them to run the business.

It is far easier to do payroll and bookkeeping right in the first place, then to be looking for the missing shoe box on April 14th! Plus, properly done bookkeeping can help in business planning. Sometimes, businessmen have a flare for seeing what is making their profits. And sometimes, well, uh..., it is kind of embarrassing to realize your overall profits would have been much higher if you had handled the losing part of your business or closed it down. I have seen a businessman spend 100,000 dollars in warehouse fees to protect assets worth \$20,000. Bookkeeping can help a manager see where his profits (and losses) are



coming from. With this knowledge he can take informed action to increase profits and decrease losses.

Q. OK. Fine. So bookkeeping and payroll assist your clients. But there are many specialties in taxes. There are corporate taxes, individual taxes, sole proprietors, LLCs, Partnerships. There is representation before the IRS. There are low-income people needing the Earned Income Credit, and corporate presidents with questions about how their stock options are taxable. How can one firm specialize in all these areas?



A. Good question. At Torchlight Tax and Financial Solutions, we specialize in trust. We know that our clients come and they place their financial data in our hands. Every return we file, we must have the Social Security number for. In these days of identity theft, it take a lot of trust to give your Social Security number to someone. Our promise to you is that we will ethically file your tax return. We will not cheat or lie or file a fraudulent return that puts you at risk. Nor will you pay inflated taxes because we missed a legal deduction or credit you were eligible for. How do we do this? Specialization is part of the answer. We do have our S-Corporation Specialist, our C-Corporation Specialist. We have our guy who knows all there is to know about the Earned Income Credit? And our non-profit expert.

And each of our staff is side-checked by a fellow EA or CPA before we file the return.

The key is that we know what we know and what we don't know. And we also know who knows what we don't. If you have an unusual tax situation, we have an expert in that situation who has joined our team on a per return basis. If your tax problem revolves around the corporate returns of Eskimo Whalers, Inc, we will have a top expert in Eskimo whaling corporations consult with us on that return.

We know enough to find an expert we can trust. You do not have to Google for Eskimo Tribe tax experts and wonder how some guy in Tampa Bay became the top expert.

In Summary:

I hope you enjoyed this tax guide. I hope it helped. You are welcome to email us at Torchlight Tax or call any of the numbers listed on our contact page.

If you have any questions, we would be glad to answer them. I am sure this guide book can be improved.

If you need tax help, we encourage you to a free consultation with us. This can be done in person, or over the phone or in a video conference call. I feel like I answered too many questions “contact us: or “contact an EA”. But it is just not feasible to answer every question in full in an easily digestible manner. So I was forced to do this. But if you have an unanswered question, call me. I will do the best I can to answer it.