THE SMALLBIZ BUILDER

PADGETT
THE SMALL BIZ PROS

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THIS MONTH:

- Should I Panic if I Receive an IRS Notice?
- Statute of Limitations
- Ten Things to Know about Farm Income

Should I Panic if I Receive an IRS Notice?

No! Each year, the IRS sends millions of letters and notices to taxpayers for a variety of reasons. Many can be dealt with simply and painlessly. Here are some tips:

1. Notices may request payment of taxes, notify you of changes to your account, or request additional information. The notice will likely cover a specific issue about your account or tax return and provide specific instructions on what you are asked to do to satisfy the inquiry.
2. If you receive a correction notice, you should review the correspondence and compare it with the information on your return. If you agree with the correction, then usually no reply is necessary unless a payment is due or the notice directs otherwise.
3. If you do not agree with the correction the IRS made, it is important that you respond as requested. You should send a written explanation of why you disagree and include any documents and information you want the IRS to consider, along with the bottom tear-off portion of the notice. Mail the information to the IRS address shown in the upper left-hand corner of the notice. Allow at least 30 days for a response.
4. Most correspondence can be handled without calling or visiting an IRS office. However, if you have questions, call the telephone number in the upper right-hand corner of the notice. Have a copy of your tax return and the correspondence available when you call to help them respond to your inquiry.
5. Always keep a copy of the notice (and any correspondence) for your records.

Statute of Limitations

After you file your taxes, you will have many records that may help document items on your tax return. You will need these documents should the IRS select your return for examination. Generally, this means you must keep records that support items shown on your return until the period of limitations for that return runs out.

The period of limitations is the period of time in which you can amend your return to claim a credit or refund or the IRS can assess additional tax. Returns filed before the due date are treated as being filed on the due date.

IF you...	THEN the period is...
Owe additional tax and (2), (3), and (4) do not apply to you	3 years
Do not report income that you should and it is more than 25% of the corrected gross income shown on your return	6 years
File a fraudulent return	No limit
Do not file a return	No limit
File a claim for credit or refund after you filed your return	The later of 3 years or 2 years after tax was paid.
File a claim for a loss from worthless securities	7 years

JEFF STRUBLE
1660 S ALMA SCHOOL RD #226 MESA AZ 85210 480-668-1155 FAX:480-668-1313
3233 W PEORIA AVE #105 PHOENIX, AZ 85029 602-354-5127 FAX: 602-354-5590
www.rhinodreams.com
jeff@rhinodreams.com padgett@rhinodreams.com

Ten Things to Know about Farm Income and Deductions

If you earn money managing or working on a farm, you are in the farming business. Farms include plantations, ranches, ranges and orchards. Farmers may raise livestock, poultry or fish, or grow fruits or vegetables. Here are 10 things about farm income and expenses that the IRS wants you to know.

Crop insurance proceeds. Treat crop insurance proceeds as income. They should generally be reported the year they are received.

Deductible farm expenses. Farmers can deduct ordinary & necessary expenses.

Employees and hired help. You can deduct reasonable wages you paid to your farm's full and part-time workers, and withhold Social Security, Medicare and income taxes.

Items purchased for resale. If you purchased livestock and other items for resale, you may be able to deduct their cost in the year of the sale, including freight and transporting charges.

Weather-related sales. Bad weather may force you to sell more livestock or poultry than you normally would. If so, you may be able to postpone reporting a gain from the sale of the additional animals.

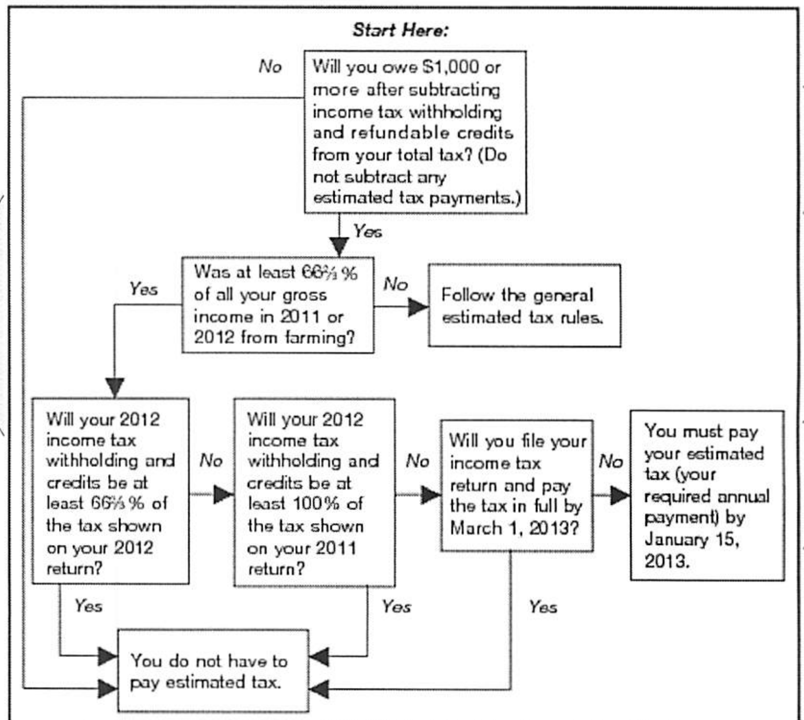
Net operating losses. You can carry the loss over to other years and deduct it. You may get a refund of the income tax you paid for past years, or be able to reduce your tax in future years.

Farm income averaging. You may be able to average some or all of the current year's farm income by spreading it out over the past three years. This may lower your taxes if your farm income is high in the current year and low in one or more of the past three years. This method does not change your prior year tax. It only uses the prior year information to figure your current year tax.

Fuel and road use. You may be able to claim a tax credit or refund of federal excise taxes on fuel used on your farm for farm work.

Special Rules for Estimated Taxes. See the chart to the right.

Farmers Tax Guide. More information about farm income and deductions is in Publication 225, *Farmer's Tax Guide.*



Note. See *Special Rules for Qualified Farmers,* later, for a detailed description of the special estimated tax rules that apply to qualified farmers.