

# IN THE BLACK

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## BRUCE A. RUKKILA, CPA, PC CERTIFIED PUBLIC ACCOUNTANTS

### What we offer you:

#### Auditing

- T Governmental
- T Nonprofit
- T Private

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- T Individual
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- T Property & Excise Taxes
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#### Consulting

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- T Financial Reorganizations
- T Human Resource & Benefit Consulting
- T Business Plan Development
- T Personal Financial Statements
- T Financial Projections &

## Welcome back to "IN THE BLACK"

The goal of our newsletter is to share information and tips that are relevant to you and your business.

at [www.brucerukkila.com](http://www.brucerukkila.com), send us an email or give us a call.

Bruce Rukkila, President, CPA,  
MA, CVA

If you have questions, comments or suggestions for us, visit our web site

### Keeping Employees Happy with Non-salary Incentives

Are you aware that, according to a 2004 Gallup survey, almost two thirds of employees are actively looking for new jobs and would leave their current employers at any time? That could spell big trouble for business owners -- especially those in industries projected to experience significant job growth.

Retention Strategies - Savvy business owners are already implementing a variety of strategies to attract and retain employees. Using a combination of pay, benefits, and nontraditional rewards, these business owners are pulling out all the stops to ensure that their employees won't bolt at the first available opportunity.

Mercer Human Resource Consulting has published a survey that identifies emerging trends in reward practices based on responses from 1,600 employers nationwide. The top five being non-monetary recognition awards, spot cash awards, competency-based performance management, broad-based equity (stock options), and job sharing arrangements.

Some Surprises - Notice that the top incentive is cost free. Non-monetary recognition awards can run the gamut from recognizing an "employee of the month," to awarding special parking places to high-performing employees, to simply writing thank-you notes.

No business can afford to lose competent, well-trained employees. Are there practices you can apply? If you're concerned about retaining employees, take a look at your current salary, benefit, and reward policies to see if they're

## New Hires - State Requirements

Do you have a new employee? Did you know that Michigan requires all employers to report each newly hired employee to the State of Michigan? Some payroll processing services automatically report newly hired employees. If you use a payroll processing service, ask if they can report on behalf of your organization.

Report all newly hired or rehired employees. Complete the State New Hire Reporting Form number 3281 and mail or fax the report within 20 days of the employee's first day on the job or return to work. You can also transmit electronically. To find out more go to [www.newhire-usa.com/mi/](http://www.newhire-usa.com/mi/). (If you report by electronic media - reports are to be transmitted at least two times per month between 12 and 16 days apart.)

Note: If your new employee is claiming more than 9 exemptions, exempt from withholding or Renaissance Zone exemptions, a copy of the MI W-4 must be sent to the Michigan Department of Treasury. Include the employer name and address and FEIN on the form. Call New Hire Reporting 1-800-524-9846 if you have questions.

## New Hires - Federal Requirements

Federal law requires that all newly hired employees complete Form I-9, Employment Eligibility Verification. This is a form of the Immigration and Naturalization Service (INS) and is not submitted to the INS but is retained by the employer for three years after the date of hire or one year after the date employment ends, whichever is later.

The employee completes section 1, and employers complete section 2 - remember to verify the information by examining a document from List A such as a passport or two documents from Lists B (establish identity) and C (establish employment eligibility).

Make this a standard part of your hiring procedures - being in compliance today can minimize reporting problems in the future.

## Unreported Income and the IRS

One of the Internal Revenue Service's priorities is to identify individuals who are filing tax returns but not reporting all taxable income. In addition to increasing the resources devoted to this key area, the IRS has implemented a broad strategy to address these cases.

**What should a person do who has been under reporting income?**

*Immediately file amended returns!*

### Document Matching

One part of the strategy is the document-matching program. Payers filed over 1.4 trillion information reports for tax year 2002 (Forms 1099, W-2, K-1, etc.). The IRS matches all information reports to the recipient's return to determine if the income was included. In 2004, the IRS estimates it will initiate contact with over 1.6 million taxpayers whose returns appear to be missing some income based on a comparison of reports from payers.

### Unreported Income Audit Selection Tool

The IRS strategy also includes methods to address the issue of unreported income not identifiable through reports from payers, for example the gross receipts of a business. The IRS cautions the public that omissions of income will be detected. A new tool was put into use in 2002 for identifying returns with a high probability of unreported income. The tool is known as Unreported Income Discriminate Index Function (UI DIF).

All returns have traditionally been assigned a DIF score during processing rating the probability of inaccurate information on the return. The UI DIF score rates the probability of income being omitted from the return. The IRS has historically used indirect examination methods to identify unreported income but, until UI DIF, had no systemic method for selecting the returns at highest risk for unreported income.

With UI DIF the IRS is able to systemically identify returns at high risk for unreported income. Many returns now receive a UI DIF score in addition to the traditional DIF score. Thousands of examinations currently in the hands of auditors were selected based on high UI DIF scores.

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## Unreported Income and the IRS (continued)

While UI DIF is already proving successful in finding returns with missing income, a research program is currently being used to update the formula to make it even more powerful. IRS is also developing business rules using multiple year return data that will complement the UI DIF formula.

### Partnering With Other Agencies

In addition to document matching and UI DIF, the IRS is increasingly using techniques that involve partnerships with other government agencies. Examples of information already being shared or currently being explored include state and local tax return information, audit reports and asset information.

### What can you do?

What is a person to do who has been under reporting income? **They should immediately file amended returns!** The IRS or a tax professional can provide guidance. The risk of being detected by the IRS is increasing. And when some persons fail to comply with the tax laws, the consequence is that law-abiding taxpayers have to pay more than their fair share.

## Lower your tax bill by generating nontaxable income

Make use of *flexible spending plans* at your place of employment. Pretax dollars reserved for health and dependent care under flexible spending rules will save you taxes. Elect to have a portion of your pretax pay withheld and deposited in a plan account. The plan will then reimburse you for the amounts you spend under the plan. Get a list of the allowed expenses and save your receipts for reimbursement and make sure you spend all the money in your plan by the end of the year. Amounts not used are forfeited.

Are you planning to move into a new home? If you have lived in your existing home for 2 out of the last 5 years before you sell, you may be able to exclude up to \$500,000 (joint filers, \$250,000 for singles) from capital gains. Keep good records - this exclusion can be claimed once every two years. If your move is before the two year period is completed and you have extenuating circumstances (divorce, job change, etc.) the exclusion may be prorated.

Do you invest in bonds? Interest earned on municipal bonds is usually not subject to federal income taxes or income taxes in the issuing state. However if you are subject to alternative minimum tax (AMT) muni bond interest is included - so do some homework and see if municipal bonds would help in your situation.

Contact Bruce A. Rukkila, CPA, PC for tax planning geared to your situation, call 906-482-6601 to arrange an appointment.

If you would like to receive this newsletter by email contact us at [help@brucerukkila.com](mailto:help@brucerukkila.com)

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**RETURN SERVICE REQUESTED**