

IRS Attorney Report

Avoid Losing Your Home and Your Legal Practice Over Little IRS Problems That Grow Quickly.

Running a successful legal practice is tough! Many people think all attorneys are on easy street and the money just flows in like a dam with a huge hole in it. They have no idea of the stress most attorneys operate under.

Many people, including the IRS, don't understand all the costs associated with being an attorney. They have no idea what it's like to constantly be scrambling to pay for cell phones, salaries, rent, fees, printing costs, postage and auto leases.

The amount of time involved in successfully running your legal practice is overwhelming. Constantly being on call to handle a client's every wish and demand can be exhausting. Keeping all your cases together right up until settling requires the patience of a saint. Most people, and especially IRS employees, will never understand all the little details that you attend to on a daily basis just to make a decent living in your legal practice.

In addition to keeping your current cases on track and settling them, you have to constantly be looking for the next case or client to keep your cash flow on track. With all these other objectives to consider it's easy to forget about the IRS and taxes as you struggle and strive to be successful in your legal practice.

Unfortunately, as much as you would like to forget the IRS, the feeling is not mutual. The IRS knows you were paid fees each year and that you did not have any taxes withheld from these payments. You are supposed to be paying estimated taxes during the year. This is where most attorneys' IRS problems start.

It sounds really easy to pay your estimates, but when you consider the erratic nature of your cash flow it's difficult at best. The IRS makes it even more difficult with its oddball estimated tax due dates. What was the IRS thinking when they decided to make an estimated tax payment due 21 days after Christmas on January 15th? Another IRS estimated tax payment is due on April 15th, a day that most attorneys dread as they scramble to come up with last year's tax liability. It's bad enough in many cases that you can't pay last year's taxes, and now you're supposed to come up with this year's 1st estimated tax payment on the same day. This is where your IRS problems start to tumble out of control as you struggle with the growing pressure of what to do first.

Your choices are to file last year's tax return on time and not pay the taxes you owe because you don't have the money to pay them or not to file your tax return and wait for the IRS to contact you.

Unfortunately, many attorneys pick the second choice and choose not to file. In most cases they also fail to make their first tax estimate due for the year. They rationalize this because they also failed to make their last estimated tax payment from the prior year, due on January 15th. If nothing else, they are consistent and optimistic that the IRS will never contact them.

The problem with choosing not to file is that this is considered a criminal act punishable by one year in a Federal Prison for each unfiled tax return. Most attorneys know it's bad not to file their tax returns, but they have no idea they could be found guilty of a felony and sentenced to prison.

Let me share with you a recent case in Idaho. *Two brothers were sentenced in February of 2000 for failing to file their income tax returns for the years 1996 and 1997. They both received 9-month jail terms (they could have received 24 months), and after their release the U.S. Magistrate ordered them to cooperate completely with the IRS and pay all their taxes.*

What was shocking about this case was that the brothers' 1997 tax returns were due on April 15, 1998 and in less than 2 years from the due date they have already been convicted, sentenced and incarcerated. My point is the IRS can move very fast when they decide to target you.

The best thing you can do as an attorney is not to make yourself a potential target. This means filing your tax returns on time even if you don't have a penny to send with it. The IRS deems not filing your tax return a criminal offense while not paying your taxes to be a civil matter.

What can you do about late or non-existent estimated tax payments? As I discussed, the due dates for the estimated taxes of April 15, June 15, September 15 and January 15 makes it difficult at best to comply with the tax law. Attorneys especially have a difficult time adhering to these due dates because of the problem of only getting paid when a closing occurs.

The IRS doesn't understand what it's like to finally get a case settled, especially if you don't have other cases in the pipeline that will settle in the next 60 days. It's very hard and scary to consider parting with some of your hard-earned fees. Sure, the money you just received seems like a lot all in one check until you take into consideration all the time and out of pocket expenses that went into making it happen.

The reality for you is that you must live on that check until another case settles and you know "that a it isn't closed until it closes". Literally anything can happen between the day an agreement is reached and the check arrives. You have to make your that check cover one or more house payments of your own, and the last thing on your mind is making your estimated tax payments on time.

Many attorneys come from a salaried background and may have never paid estimated taxes in the past and definitely have never filed an IRS Schedule C for self-employment. Having to keep track of every expense is a long and tedious task for every attorney that is required to file an IRS Schedule C.

The IRS knows that every attorney who files a Schedule C with his or her tax return is now a candidate for a lucrative audit from the IRS point of view. Your odds of being audited are extremely high just because you have reported your income and expenses on Schedule C.

The IRS reports that your chances of being audited are 6-7 times higher if you include a Schedule C with your tax return. What most attorneys don't realize is that there are extremely effective techniques for avoiding the reporting of their legal fees on Schedule C. These techniques can reduce your potential for being audited to less than a 1% chance. I believe most attorneys have never had anyone explain to them how easy it is to take advantage of these powerful techniques that can save them both money and sleepless nights.

Most attorneys file tax returns with a Schedule C attached just like all the other self-employed people, which substantially increases their risk of being audited. Assuming of course that you have filed your tax returns in the first place.

Let me share with you five strategic secrets regarding how to end IRS problems:

Secret # 1

Avoid IRS problems by not getting into them in the first place. Sounds simple, but how? When it comes to filing your income tax returns, you **MUST** file on time each year regardless of whether or not you can pay the taxes due. No exceptions! Even if you have not made any estimated tax payments. Like the sneaker commercial says, “Just Do It!”

Secret # 2

Consider incorporating your legal practice and stop filing a Schedule C. Why would anyone want to file a tax return that was 6-7 times more likely to be audited than all the other taxpayers? If you incorporate yourself then all your legal commissions would be paid to your corporation.

Your corporation would then be required to file a corporate income tax return and report all of your legal income and expenses. There are all types of corporations to choose from when you’re considering operating your legal practice as a corporation, but they all have one thing in common. The odds of any corporation being audited are extremely low and especially yours because it will be so small.

Incorporating your legal practice allows you to become a very small fish in a big ocean full of much larger corporations. Imagine how small your corporation will look to the IRS when they are considering which corporations to audit. You’ll be so small it won’t even be worth the IRS’s time to even glimpse at you. Effectively you’ll have disappeared from the IRS while at the same time being completely legal and in full compliance with all the tax laws.

Secret # 3

Make some estimated tax payments. Even if you can’t pay the amount you know is due, at least pay something. Sure, you may be liable for a penalty for underpaying, but it’s insignificant as compared to completely missing the estimated tax payment.

Income from your legal practice is inconsistent at best. It may never level off, so don’t sit around waiting for this to happen. Computing how much your estimated tax payment should be is never going to be easy or the same. Instead just **MAKE** yourself pay something, which will help you in the long run to end your IRS problems, or at the very least minimize them.

Secret # 4

Instead of trying to deal with the estimated tax payment schedule, you should send them one every month. Even if you had the money to make your estimated payments on time, the oddball dates make it difficult to remember when they are due and for how much.

Just take last year’s tax liability (assuming you filed last year) and divide the total tax liability by 12 months and pay in that much each month. If you have some IRS 1040 ES Forms, copy them and make some extras so you can stick one in the envelope you mail to the IRS each month with your estimated payment check.

If you don't have any IRS 1040 ES Forms you can still send the IRS money without them. Simply write your social security number and the words 1040 ES – (YEAR) in the memo area of your check along with a letter and mail to it the IRS Service Center. This sounds really easy because it is. Even if you only get around to mailing in 7 out of the 12 possible estimated tax payments, you'll be miles ahead.

Secret #5

If you find yourself not filing or not paying or both, call a professional for help or at least a consultation. Attorneys who try to solve their own IRS problems are just like a client who represents himself. There are some things in life that you can't practice for and dealing with the IRS is one of them.

Watching attorneys wait until the IRS is at the door or levying their bank accounts is an extremely difficult thing to go through. The emotional roller coaster caused by IRS problems coupled with the potential loss of personal assets and your family, is simply too high of a price to pay.

When the IRS starts to levy your accounts, your bank is forced to deal with your tax problems and it becomes a headache for them, as well as common knowledge in your office. When the IRS files a Federal Tax Lien against you it appears in the public records for all your clients to see. None of these actions will help your career in law, in fact in many cases it's the start of an attorney's downfall.

As I mentioned at the beginning of this report, it's tough enough to be attorney without doing things that cause you to sabotage your own career in the industry. IRS problems can be solved while you continue to do what you do best. Be an Attorney!

I can help you with a step-by-step plan to get you back on track regardless of where you are in dealing with your own IRS problem. Some attorneys believe they can work it out themselves and save a little bit of money. I can give you peace of mind, so you can sleep at night knowing that I am dealing with your IRS problem.

IRS problems do not solve themselves and when left alone they tend to get worse, not better. I would much rather help you solve any IRS problems you're suffering from before they get to the flash point. Don't put yourself in the situation where your bank accounts are being levied. Call me at 856-256-1490 for a confidential consultation to discuss ending your IRS Problems.



Charles K. Montecino
Certified Public Accountant
Certified Tax Resolution Specialist