LEARN TO LOVE THE IRS

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RELIEF FOR CONTRACTORS?
‘Round and ‘round we go. Is the worker an employee or an independent contractor? The IRS chases employers and employers dodge the IRS. Everyone is doing it—or so it seems. But helping to sort out the rules is always welcome, so a Senate proposal late last year on worker classification could bear fruit. The proposal would create a safe harbor (we lawyers love those). It would be based on three criteria: the relationship between the respective parties, the existence of a written contract and the location of the services or the means by which the services are provided. You may know that companies like Uber are being characterized as exemplars of the “gig economy.” Creating freelance relationships with what perhaps could be called employees is now the rage. In the old days, workers who described themselves as “freelance” often euphemistically meant that they were unemployed. As the situation gets more out of hand because of this gig economy, legislation in this area is more likely. Included in the proposal will be necessary changes to the Form 1099 reporting rules.

WHAT’S LEFT AFTER TAX REFORM?
With all the talk of tax reform, is there anything that is safe from “reform” in our tax system? Here are a few: the IRS will continue to exist and be underfunded while at the same time being asked to police other parts of the federal law; the advantage given to the wealthy who live on capital gains will likely continue guaranteeing that they will not pay more than 15 percent; “coupon clipping” as it was once called (that is, living on municipal bond tax-exempt interest) will not be disturbed; corporations will hoard cash and pay out dividends to shareholders; both the estate tax and gift tax will continue at least until the extent of the damage to the deficit is clearly known; the Social Security wage base will continue to rise as Congress searches for ways to pay for this entitlement; Medicare and Medicaid will of necessity need to be trimmed but they will survive; some type of indexing of the tax brackets will also persist (which is a sneaky way of raising taxes); the courts to which taxpayers can take an IRS problem will also withstand reform, especially the U.S. Tax Court. But, of course, I could be wrong and only time will tell.

MORE TALK ABOUT TAX REFORM
If you are like me, you have already had enough of a lot of the talk about tax reform. Let’s first say this. There is nothing fundamentally wrong with our tax system. Few poor people are paying any tax. The middle class and the common wage earner have figured out ways to survive under the current rules. Corporations are doing fine and have been stashing their cash overseas for decades. The stock market is (at the time of this writing) in fairly decent shape, the real estate market is strong, and unemployment is the lowest in years. So why change things? Many in the current group of politicians (including their boss) loudly trumpeted the need for reform. It’s odd that at the same time these same folks refuse to fund the IRS even though one dollar spent on the IRS usually results in three dollars of collectible tax. But who am I to criticize? So for the umpteenth time, this is what so many in the Washington crowd still think we need: To be able to file our tax returns on a postcard, even though the IRS would simply not be equipped to process any such thing and would probably need years to retool such an “innovation”; reduce the number of tax brackets to four, three, two or one; chop some of the individual deductions that many people have based their financial lives upon; drastically increase the standard deduction but eliminate personal exemptions for tax filers and their