

# TAX NEWS

Summer 2008

TAX CLIENT NEWSLETTER

It seems only yesterday that I was in the heat of tax filing season and here it is summertime. Many of you have filed your 2007 U. S. Individual Federal Income Tax Returns and are already looking forward to if not already received your 2008 Stimulus Package Refund. For those of you who obtained an extension to file your 2007 U. S. Individual Federal Income Tax Return your Stimulus Payment awaits your filing. You must file a tax return in order to receive the Stimulus Payment.

Unfiled 2007 Individual Federal Income Tax Returns are on extension until October 15, 2007. Please be aware that the Internal Revenue Service is warning that 2007 Individual Federal Income Tax Returns filed after October 15, 2007 may not receive the Advanced Stimulus Payment but instead the taxpayers will receive their Stimulus Payment when they file their 2008 U. S. Individual Federal Income Tax Return.

If you have a relative, friend or associate who has not filed a tax return in recent years because their income requirement fell below the requirement to file, if they receive Social Security or Veteran's Benefits they would likely be entitled to a \$300 Stimulus Payment.

The Stimulus Payment you receive this summer is an advance on 2008 taxes. You will not have to pay it back nor is it income for 2008. The Stimulus Payment calculation will be on your 2008 U. S. Individual Federal Income Tax Return. If your circumstances change from 2007 to 2008 you may be entitled to more Stimulus Payment when we file your 2008 taxes or less. If you received too much in an Advanced Stimulus Payment you will not be required to pay it back.

Several law tax law changes are being considered by Congress. However, in light of this being an election year there may or may not be much legislation passed which will affect 2008. More likely the changes will come in late 2008, which may be retroactive, but more probable will be the changes to come with a new administration in the White House and an election to both Houses of Congress.

Much of the talk today is on how tax professionals prepare tax returns and the important role a tax professional plays in insuring that America's taxpayers are compliant. My role as your tax professional is to provide quality, knowledgeable service to you giving you the confidence that the tax return you have filed not only meets the requirements of the Internal Revenue Code but is one that meets your obligations as an American taxpayer.

The Internal Revenue Service has begun the process of auditing taxpayer's tax returns and the preferred method is what is known as a "correspondence" audit. Make no mistake; although you are not required to go into the office at the IRS you are being audited. Should you receive a communication about a correspondence audit or any correspondence from the IRS for that matter, please call me immediately. It is part of the obligation of the IRS to make certain that taxpayers file accurate tax returns. We want to respond timely and appropriately.

Internal Revenue Code Section 7216 requires that I, as your tax professional, maintain the knowledge of your tax filing with the greatest of confidentiality. This requirement of the Internal Revenue Code is secondary to my commitment to you. Your personal information disclosed during the preparation of your tax return is treated by me and my staff in the strictest of confidence and disclosed to no one without your expressed written permission to do so.

I do want to remind you that the IRS does not correspond with taxpayers via the internet. Many disreputable individuals and companies are "phishing" for your information by contacting you on the internet. The IRS is being used as a cover for international operations to steal your personal identification information such as your bank account information, Social Security number and credit card accounts. If you are contacted by the Internal Revenue Service, please call my office immediately. Many of these scams reportedly notify the taxpayer of refunds which are available. New scams appear daily and one

of the more popular ones involves the 2008 Stimulus Payment.

The Internal Revenue Service has published the list of the Top 2008 "Dirty Dozen" Tax Scams. In talking with friends and family we often encounter something that sounds too good to be true. Believe me, it probably is. Popular scams that you may encounter include:

**Phishing** – a tactic used by internet-based thieves to trick unsuspecting victims into revealing personal information they can then use to access the victims' financial accounts.

**Scams Related to the Economic Stimulus Payment** – some scam artists are trying to trick individuals into revealing personal financial information that can be used to access their financial accounts by making promises relating to the economic stimulus payment.

**Frivolous Arguments** – promoters of frivolous schemes encourage people to make unreasonable and unfounded claims to avoid paying the taxes they owe. Taxpayers who file a tax return or make a submission based on such a submission are subject to a \$5,000 penalty.

**Fuel Tax Credit Scams** – the IRS is receiving claims for the fuel tax credit that are unreasonable. Some taxpayers, such as farmers, who use fuel for off-highway business purposes, may be eligible for the fuel tax credit.

**Hiding Income Offshore** – Individuals continue to try to avoid paying U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or suing offshore debit cards, credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities or life insurance plans.

**Abusive Retirement Plans** – the IRS continues to uncover abuses in retirement plan arrangements, including Roth IRAs. The IRS is looking for transactions that taxpayers are using to avoid the limitations on contributions to Roth IRAs.

**Zero Wages** – filing a phony wage or income-related information return to replace a legitimate information return has been used as an illegal

method to lower the amount of taxes owed.

**False Claims for Refund and Requests for Abatement** – this scam involves a request for abatement of previously assessed tax using Form 843, "Claim for Refund and Request for Abatement."

**Return Preparer Fraud** – Dishonest tax return preparers can cause many problems for taxpayers who fall victim to their schemes.

Not all tax professionals are the same. My commitment to you is that you will pay the lowest legal amount of tax. As a member of the National Society of Tax Professionals I subscribe to a code of professional conduct requiring that I conduct myself professionally and in accordance with IRS requirements at all times. Your confidence and trust is far too valuable for me to conduct myself otherwise.

**Disguised Corporate Ownership** – some people are going as far as forming domestic shell corporations in certain states for the purpose of disguising the ownership of a business or financial activity. Once formed, these anonymous entities can be used to facilitate underreporting of income non-filing of tax returns, engaging in listed transactions, money laundering, financial crimes and even terrorist financing.

**Misuses of Trusts** – for years, unscrupulous promoters have urged taxpayers to transfer assets into trusts. They promise reduction of income subject to tax, deductions for personal expenses and reduced estate or gift taxes. However, some trusts do not deliver the promised tax benefits. As with other arrangements, taxpayers should seek the advice of a trusted professional before entering into a trust.

**Abuse of Charitable Organizations and Deductions** – the IRS continues to observe the misuse of tax-exempt organizations. Misuse includes arrangements to improperly shield income or assets from taxation, attempts by donors to maintain control over donated assets or income from donated property and overvaluation of contributed property. In addition, IRS examiners are seeing an upturn in instances where taxpayers try to disguise private tuition payments as contributions to charitable or religious organizations.

If you hear about or come in contact with any of these scams, please call me immediately. I urge you to not participate any way or provide these promoters with any of your personal information.

While the news is abounds with stories about Congressional actions which will raise or lower your taxes, very little action has been taken

to change how your taxes for 2008 will be impacted. As your tax professional, I assure you that I will be continuing a watchful eye on legislation which may affect your tax filings.

One piece of legislation – the Heroes Earnings Assistance and Relief Tax Act, HEART, has been signed into law by President Bush. More than \$1.2 billion in tax relief is to benefit America's veterans and soldiers.

#### **Included in the Act as Tax Fairness for Military Personnel:**

- A permanent allowance for soldiers to count their non-taxable combat pay when figuring their eligibility for the earned income tax credit.
- The ability for active duty troops to withdraw money from retirement plans, and an allowance of two years to replace the funds without tax penalty.
- A 180-day period for Reservists called to active duty to use unspent funds in a health flexible spending account or cafeteria plan.
- The ability for military families to count most military cash allowances beyond basic pay to be treated as earned income for purposes of determining Supplemental Security Income eligibility and benefit amounts, and treat certain housing payments as in-kind support and maintenance.
- Clarification that members of the military who file a joint tax return would be eligible for the stimulus rebate payment even if the spouse does not have a Social Security number.
- A one year extension of parity between mental and physical health benefits.

#### **Included in the Act to Honor our Veterans:**

- A permanent allowance for all veterans to use qualified mortgage bonds to purchase their homes.
- Extension of a provision that gives retired veterans more time to claim a tax refund on some types of disability benefit payments.
- Authority for the IRS to treat gifts of thanks from states to veterans, such as payments of excess state revenue, as nontaxable gifts.
- The ability for blind, disabled, and aged veterans to disregard state annuity payments when determining Supplemental Security Income eligibility benefits.

#### **Other:**

- The ability for families of Reservists killed in the line of duty to collect life insurance and other benefits provided by the civilian employer.
- The ability for families of soldiers killed in the line of duty to contribute up to 100 percent of survivor benefits to retirement savings accounts or to education savings accounts.

- A tax cut for small businesses when they continue paying some salary to members of the National Guard and Reserve who are called to duty.
- An end to cumbersome rules for reporting of income when companies continue paying some salary to members of the National Guard and Reserve who are called to duty. This makes it easier for reservists to file their taxes and simpler for employers to keep contributing to those employees' retirement plans.
- A permanent extension of a provision that give intelligence service employees and Peace Corps volunteers a longer period of time to meet residency requirements necessary to exclude profits from the sale of their home.
- The ability to disregard allowances paid to all Americorps volunteers for the purpose of determining SSI eligibility and benefit amounts.

The Heroes Earnings Assistance and Relief Tax Act is fully offset with a provision to ensure defense contractors are not sidestepping their tax obligations by going offshore, no matter where in the world they employ workers.

This provision will require U.S. employers doing federal contract work for the U.S. government, and using foreign subsidiaries to compensate their U.S. employees working abroad, to begin paying Social Security and Medicare taxes on behalf of these employees. The provision will insure defense contractors in Iraq, Afghanistan and elsewhere meet their legal obligation to pay payroll taxes on behalf of the people who work for them.

If you have any concerns or questions about your taxes, may I remind you that I am a full-service tax professional in business year round and I am here to serve your tax and tax planning needs.

Thank you for reviewing the Summer 2008 Tax Client Newsletter and always for the opportunity and privilege of allowing me to serve as your tax professional

