



Welcome to Tax News

In addition to providing tax preparation and personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

Enjoy the read and profit from the experience of Tax News

In Today's Issue

News From The IRS The 2005 Dirty Dozen Announced

The Internal Revenue Service recently unveiled its annual listing of notorious tax scams, known as the "Dirty Dozen"

Strange But True Double Dipping in the EITC Pool

Ever thought of double-dipping on the earned-income tax credit? No because it doesn't sound legal, well for some families it could be.

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News From The IRS

The 2005 Dirty Dozen Announced

The Internal Revenue Service recently unveiled its annual listing of notorious tax scams, known as the "Dirty Dozen" as a reminder to taxpayers to be wary of tax schemes that promise to eliminate taxes or other too good to be true promises.

The IRS urges people to avoid these common schemes:

1. **Trust Misuse.** Unscrupulous promoters for years 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, and the IRS is actively examining these arrangements.
2. **Frivolous Arguments.** Promoters have been known to make the following outlandish claims: that the Sixteenth Amendment concerning congressional power to lay and collect income taxes was never ratified; that wages are not income; that filing a return and paying taxes are merely voluntary; and that being required to file Form 1040 violates the Fifth Amendment right against self-incrimination or the Fourth Amendment right to privacy. Don't believe these or other similar claims. Such arguments are false and have been thrown out of court.
3. **Return Preparer Fraud.** Dishonest return preparers can cause many headaches for taxpayers who fall victim to their ploys. Such preparers derive financial gain by skimming a portion of their clients' refunds and charging inflated fees for return preparation services. They attract new clients by promising large refunds. Taxpayers should choose carefully when hiring a tax preparer. As the saying goes, if it sounds too good to be true, it probably is. No matter who prepares the return, the taxpayer is ultimately responsible for its accuracy.
4. **Credit Counseling Agencies.** Taxpayers should be careful with credit counseling organizations that claim they can fix credit ratings, push debt payments agreements or charge high fees, monthly service charges or mandatory "contributions" that may add to debt. The IRS Tax Exempt and Government Entities Division has made auditing credit counseling organizations a priority because some of these tax-exempt organizations, which are intended to provide education to low-income customers with debt problems, are charging debtors large fees, while providing little or no counseling.
5. **"Claim of Right" Doctrine.** In this scheme, a taxpayer files a return and attempts to take a deduction equal to the entire amount of his or her wages. The promoter advises the taxpayer to label the deduction as "a necessary expense for the production of income" or "compensation for personal services actually rendered." This so-called deduction is based on a misinterpretation of the Internal Revenue Code and has no basis in law.
6. **"No Gain" Deduction.** Similar to "Claim of Right," filers attempt to eliminate their entire adjusted gross income (AGI) by deducting it on Schedule A. The filer lists his or her AGI under the Schedule A section labeled "Other Miscellaneous Deductions" and attaches a statement to the return, referring to court documents and including the words "No Gain Realized."

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Dates For The Diary

Mar 15

- ◇ S-Corp Election Decision Due (if applicable)
- ◇ Corporate Returns or Extensions Due
- ◇ Employers make monthly payroll tax deposit today

Tax News

Accountant Fighting IRS on Insurance Taxes

Charles Ulrich, should be enjoying his retirement with a spot of fishing or a game of golf, instead after spending 45 years working as a certified public accountant he is battling the nation's tax collectors over life insurance.

Ulrich is driven by the belief that, since 1999, as many as 15 million people paid too much tax on stock or cash they received when their mutual insurance companies, owned by policyholders, reorganized and became publicly traded companies.

Mr Ulrich wants a federal court to let a class-action lawsuit go forward and force the IRS to re-examine the taxation of these stock and cash payments with more than 20 companies known to have gone through the reorganization process, called demutualization.

Contact

WebSite

www.taxlogic.com

Email

CustomerService@taxlogic.com

Phone

1-800-729-2271

Fax

1-800-760-6837

Mail

PO Box 78063
San Antonio
TX 78278 0637

7. **Corporation Sole.** Since September 2004, the Department of Justice has obtained six injunctions against promoters of this scheme and filed complaints against 11 others. Participants apply for incorporation under the pretext of being a "bishop" or "overseer" of a one-person, phony religious organization or society with the idea that this entitles the individual to exemption from federal income taxes a nonprofit, religious organization. When used as intended, Corporation Sole statutes enable religious leaders to separate themselves legally from the control and ownership of church assets. But the rules have been twisted at seminars where taxpayers are charged fees of \$1,000 or more and incorrectly told that the Corporation Sole laws provide a "legal" way to escape paying federal income taxes, child support and other personal debt.
8. **Identity Theft.** It pays to be choosy when it comes to disclosing personal information. Identity thieves have used stolen personal data to access financial accounts, run up charges on credit cards and apply for new loans. The IRS is aware of several identity theft scams involving taxes. In one case, fraudsters sent bank customers fictitious correspondence and IRS forms in an attempt to trick them into disclosing their personal financial data. If taxpayers have any doubt whether a contact from the IRS is authentic, they can call 1-800-829-1040 to confirm it.
9. **Abuse of Charitable Organizations and Deductions.** The IRS has observed an increase in the use of tax-exempt organizations to improperly shield income or assets from taxation. This can occur, for example, when a taxpayer moves assets or income to a tax-exempt supporting organization or donor-advised fund but maintains control over the assets or income, thereby obtaining a tax deduction without transferring a commensurate benefit to charity.
10. **Offshore Transactions.** Despite a crackdown on the practice by the IRS and state tax agencies, individuals continue to try to avoid U.S. taxes by illegally hiding income in offshore bank and brokerage accounts or using offshore credit cards, wire transfers, foreign trusts, employee leasing schemes, personal annuities or life insurance to do so.
11. **Zero Return.** Promoters instruct taxpayers to enter all zeros on their federal income tax filings. In a twist on this scheme, filers enter zero income, report their withholding and then write "nunc pro tunc" – Latin for "now for then" – on the return.
12. **Employment Tax Evasion.** The IRS has seen a number of illegal schemes that instruct employers not to withhold federal income tax or other employment taxes from wages paid to their employees. Such advice is based on an incorrect interpretation of Section 861 and other parts of the tax law and has been refuted in court. Employer participants can be held responsible for back payments of employment taxes, plus penalties and interest. It is worth noting that employees who have nothing withheld from their wages are still responsible for payment of their personal taxes.

The IRS reminds taxpayers to be vigilant about cons that many not be on the Dirty Dozen list. New tax scams or schemes routinely pop up, especially around tax time. If you are not sure if it is legitimate, contact your local IRS office.



What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

Strange But True

Double Dipping in the EITC Pool

Ever thought of double-dipping on the earned-income tax credit? No because it doesn't sound legal, well for some families it could be. The EIC is in essence a negative tax, for people whose income is low enough, the IRS gives them money instead of collecting money from them. For the 2004 tax year, the EIC refund to a family with two or more children can be as high as \$4,3000.

The credit is limited, for example if you have more than \$2,650 of investment income in a year you can't claim the earned-income credit. However while the credit is restrictive, it appears that there may be a way for some families to double their take of the credit.

The issue had been raised by a CPA in Brooklyn N.Y whose client is a couple and their five children, with the oldest being 19 and earning approximately \$10,000 annually. The family wants to file two returns each claiming the earned-income tax credit, for purposes of the credit, the couple would claim two children and the 19-year-old would claim the other two.

At first it sounded illegal but a review of the rules has shown that it is possible, as long as some guidelines have been met. The requirements are the definition of the relationship, age and residency tests, while this news has caused some concern and confusion as to what is legal and what is illegal to claim. Taxpayers are being encouraged to consult a tax professional, to get specialist advice on this issue.

Tax Tidbits

Some Useful Tax Ideas

- ◇ Paying the IRS isn't usually something people like to do early. However, it is a good idea to file your taxes before the April 15 deadline. Whether you file at the post office or on the Web, you'll avoid traffic and hassles. And if the IRS rejects your return, you'll still have time to correct the mistake.
- ◇ Even if you don't have the money to pay your tax liability, make sure you file your return on time.
- ◇ Hybrid vehicles do not qualify for the electric vehicle credit. That is because they are not powered primarily by electric motors. So is there any kind of tax break available?
- ◇ Yes, this type of car may be eligible for a clean-fuel deduction. Generally, the deduction is limited to the cost of the electric components of the automobile. The taxpayer must be the original owner of the car and the car must be intended for his or her own personal or business use. The maximum deduction for a passenger vehicle weighing 10,000 pounds or less for tax year 2004 is \$1,500.