

TALES FROM THE CRYPT

DECEMBER 2006

We regularly highlight and discuss many horror stories regarding the investment industry and its victims in the *Markowski Monthly* and the *Watchdog on Wall Street Radio Show*. John Donofrio, our in-house tax-professional and head of the accounting firm Donofrio Inc. tells me that similar carelessness and lack of scruples is commonplace in the wonderful world of accounting, which has him putting out fires with alarming regularity. In what will be a reoccurring column here in the *Personal CFO*, John will share these tales in an effort to warn and educate.

I had a client come into my office to have his 2005 tax return prepared with my company. When new clients come into my office it is mandatory that I look at the last two years of tax returns. In order for me to have a full understanding of his tax situation I need to see what transpired over the last several years.

After analyzing the 2003 and 2004 filings I realized that his prior accountant was taking deductions that my client was not entitled to and others that he didn't even have to take. In addition, the prior accountant misrepresented his filing status. I informed the client that there was a very good chance that he would be audited due to the fact that the statute of limitation did not expire. Under normal circumstances, the IRS has three years from the filing due date to audit a return.

I informed the client that he should amend his federal and state tax returns for 2003 and 2004. From my experience and observation I have learned that most individuals are a bit skittish to say the least when it comes to the Internal Revenue Service and this client was no exception. He decided against amending because he felt he would be scrutinized or "*placed under the microscope*" by them in the future, so he decided to leave his 2003 and 2004 tax returns alone.

REMINDER!!! I can only advise clients as to what the best course of action; I can lead a horse to water, but I can't make the horse drink the water. So we prepared his 2005 tax returns the right way and despite the bad feelings I had regarding his prior returns parted ways until 2006.

It turns out my bad feelings were warranted when I received a call from him this past November stating that the IRS will be auditing his returns for 2003 and 2004. FOR THE RECORD...I did not tell him, "*See I told you so.*"

After some serious digging and research we discovered that the accounting firm that prepared his faulty returns was indicted for falsifying tax returns. He was very upset regarding the situation and I told him we would get through it.

I had him collect all his tax information for 2003 and 2004; he had to order some statements from banks. PLEASE KEEP YOUR RECORDS AVAILABLE BECAUSE YOU NEVER KNOW. After reviewing his return, I found deductions that my client was not entitled to, therefore I had to inform him that he would owe a balance. Due to the fact that his prior accountant was so focused on "*beating the system*", he missed obvious deductions and credits that the system allowed and my client was entitled.

If his accountant (and the countless others like him) were not lazy thieves they could have actually looked at and learned some tax laws and discovered deductions and credits that my client was entitled instead of making up their own.

The big day of infamy finally came for the audit, and after three hours of presenting our case my client walked out without owing the IRS any additional tax monies. We had to amend my client's

state returns for 2003 and 2004 and he owed some additional taxes, because state returns don't always follow all IRS deductions and credits. However, the stress, aggravation and time unnecessarily wasted I could do nothing about. All because of another careless accountant who wanted to take the easy way out and a client who didn't listen.

Bottom line folks: There is nothing easy or simple about tax law. The tax code provides for many deductions and opportunities for all tax payers. This client was lucky, creative accounting more often than not leads to costly penalties and in some cases jail.

NOTE: Important Days to Remember for January 2007.

Tuesday 1/16 The due date for individuals to pay the final installment of estimated taxes for 2006.

Tuesday 1/30 Sole proprietors participating in a SIMPLE IRA must contribute their 2006 elective deferral.

Wednesday 1/31 Deadline for furnishing W-2 forms and 1099's to employees. Due date to file Form 940 the Employer's Annual Federal Unemployment Tax Return and Form 941, Employer's Quarterly Federal Tax Return.

Some Other Quick Tips.

Mileage Rates

Standard mileage rates for deductible driving announced for 2007.

Business driving 48.5 cents per mile. (Up from 44.5 cents in 2006.)

Medical or moving purposes.

20 cents per mile. (Up from 18 cents.)

Driving on behalf of a charity.

14 cents per mile. (No change.)

IRS REVENUE PROCEDURE 2006-49

Social Security Taxes

Social Security taxes increased for 2007 for wage earners. The wage base on which the Social Security portion of FICA and self-employment is figured will increase on January 1, 2007 to \$97,500, an increase from \$94,200 in 2006.

For an employee with income at or above the wage base limit, it means both the employee and employer will pay an additional \$204.60. Self-employed individuals will pay an additional \$409.20.

Social Security benefits will rise by 3.3% for 2007.

State Tax Deductions

The Treasury Department recently conducted a study that found one of every seven taxpayers who could have benefited from claiming the deduction for state sales tax on the federal return for 2005 failed to do so. Therefore, millions of dollars in deductions were forfeited.

Often Overlooked Medical Deductions

Cost of equipment used to alleviate a medical condition, such as portable air conditioners, humidifiers and dehumidifiers and their operating costs.

Weight-loss programs when prescribed as treatment for a specific medical condition such as high blood pressure.

Quit-Smoking programs.

Cosmetic surgery when utilized to alleviate a medical condition, rather than merely improve appearance.

Lamaze and other childbirth preparation classes.

A child's special education costs, when on a doctor's recommendation you pay extra for a teacher who is specially qualified to work with children who have learning disabilities caused by mental or physical impairments. If the child is advised to board at a school providing special education, medical expenses may include the cost of tuition and room and board.

Eyesight correction including contact lenses and related solutions, eyeglasses and laser surgery.

Hearing aids, and special audio equipment attached to televisions, phones, and other items to compensate for loss.

IRS PUBLICATION 502 MEDICAL AND DENTAL EXPENSES