

**IRS WARNS AGAINST
SLAVERY REPARATION
SCAM**

The IRS has issued a warning for taxpayers not to be misled into filing slavery reparation claims. Although the number of returns making this claim is increasing, there is no provision in the tax law that allows African-Americans to get tax credits or refunds related to slavery reparations. In 2001, the IRS received nearly 80,000 returns claiming more than \$2.7 Billion in false reparation refunds. Promoters are targeting church congregations for the reparation scams. There are also signs that promoters are expanding the reparation scam to new groups such as Native Americans.

Scott Kauffman

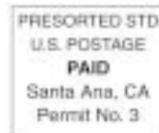
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A LEGAL NEWSLETTER



8. **IRS Agent Comes to Your House to Collect.** IRS special agents, field auditors, and collection officers carry picture Ids and will normally try to contact you before they visit. If you believe the person on your doorstep is an impostor, lock your door and telephone the police. [An elderly woman in Texas did telephone the police claiming that she had seen her visitor on America's Most Wanted. Trouble was, the person was in fact an IRS agent who had been to the woman's home before. Needless to say she was in big trouble. The IRS never could take a joke.]
9. **Put Your Money in Trust and Never Pay Taxes Again.** Promoters of abusive trust schemes may charge \$5,000 to \$70,000 for trust packages. The fee enables taxpayers to have trust documents prepared, to use foreign and domestic trustees as offered by the promoters, and to use foreign bank accounts and corporations. Although these schemes give the appearance of the separation of responsibility and control from the benefits of ownership, these schemes are in fact controlled and directed by the taxpayer. A legitimate trust is a form of ownership that completely separates responsibility and control of assets from all of the benefits of ownership.
10. **Improper Home Based Business.** This scheme purports to offer tax relief, but in reality is illegal tax avoidance. The promoters of these schemes claim that individual taxpayers can deduct most, or all, of their personal expenses as business expenses by setting up a bogus home based business. The Tax Code, however, firmly establishes that a clear business purpose and profit motive must exist in order to generate and claim allowable business expenses.
11. **Claim Disabled Access Credit For Pay Phones.** Con artists sell expensive coin operated telephones to individuals contending that they can claim a \$5,000 Disabled Access Credit on their tax return because the telephones have volume controls. In reality, the Disabled Access Credit is limited to bona fide businesses that are coming into compliance with the Americans with Disabilities Act.

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IRS Tax Advocate

A Legal Newsletter
"Read About Taxpayers with IRS Problems & Learn
Helpful Tips on How To End Them."

Volume IV, Issue 15
Friday, 9:47 AM

Learn How to Avoid
IRS
problems and solve
them if you find
yourself with one!

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HOW TO PREPARE FOR A TAX AUDIT

It's the last thing you want to see. A white envelope from the IRS marked "Official Government business". Don't panic! The news might not be as bad as you think. While a tax audit might be your first thought, it could be something else. The IRS might be telling you of a math error on your return that must be fixed. Or maybe something on your W2 doesn't agree with your tax return. Then again, the envelope could be a notice that one of your past tax returns is being audited. I never recommend that a client attend an audit unrepresented. They could unwittingly reveal information that is not required and potentially cause more problems. Even with professional representation you must prepare for an audit by gathering information and delivering it to your representative. Get in the habit of maintaining good primary and secondary tax records year round and using a personal filing system to keep them with the appropriate tax return. Primary records are bills, receipts, and cancelled checks. Secondary records may be spreadsheets, mileage logs, or other summary information you've kept. If you haven't kept good records, go back and try to recreate records as accurately as possible. For example, if you claimed a deduction for unreimbursed medical expenses, your doctor or hospital may have those medical records on file. Behave professionally. Don't show up at the audit wearing jeans with your receipts in a shoebox. Be on time and be organized. Realize the IRS auditor is not your friend. You can be sure of two things with an IRS auditor: First, they paid their taxes. Second, there is an assumption you must have done something wrong or you wouldn't be there. Be forthcoming with information, but only answer questions directed to you. Never volunteer extra information. The good news is that all audits do not result in the taxpayer owing extra taxes and many audits result in the IRS owing the taxpayer money.

PROCRASTINATORS ARISE!

Nearly two million households could lose a total of more than \$2.5 Billion in federal income tax refunds merely because they have fallen behind in filing their returns. Many figured that the refund amount was

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"Oh good. Here come the accountants."

WHAT TO DO IF YOU'RE AUDITED

So what do you do if you didn't follow my advice and you end up being audited? Don't panic. Hundreds of thousands of taxpayers are audited each year. Most importantly, don't ignore the invitation. Ignoring the notice will not make it go away and will only make matters worse. There are three kinds of audits:

Correspondence, office, and field audits. Correspondence audits are done strictly through the mail and usually deal with just one area of your return. The IRS is usually just asking for a document of some kind. Office audits usually cover a specific area on your return and you'll be asked to schedule an appointment at your local IRS office. You may go it alone, with a representative, or send someone in your place. Be certain you are well organized and that you bring all the documents requested, but bring only the documents requested. Field audits are much more comprehensive so be prepared for full disclosure of your records. Finally, the auditor does not have the final say. You have a right to appeal. I have obtained some very good results for my clients in their appeals.

CHECK

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IT OUT

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so small it wasn't worth the effort. Others are hopelessly disorganized. But many are clinging to a dangerous and widespread myth that a taxpayer can file anytime to claim his refund. Generally, however, you must file your return within three years of the date it was due or you lose the refund. At issue are returns due for 1999. If you didn't file for that year and you believe you are entitled to a refund, be certain to file your return no later than April 15th of this year. The average refund for those not filing appears to be about \$500 each. California has the highest number of procrastinators estimated at 209,500.

FREE CHESTY!

Chesty Morgan, an enterprising Detroit stripper, sought to claim her breast implants as a medical expense, but found herself busted by the IRS. Chesty, unperturbed, took her case to the United States Tax Court. The judge being no boob permitted Chesty to write off the operation as an unreimbursed business expense.

Other interesting tax strategies taxpayers have tried:

- Claiming a casualty loss for his wife's ashes misplaced by the funeral director.
- Consider this pesky rule. Since the 1980s parents have had to provide a Social Security number for their children in order to claim them as dependents. The first year Social Security numbers were required, the number of dependents plummeted by over 7 Million. Taxpayers must have been deducting their pets, which is not to say Fido cannot be a windfall. The IRS did allow a filer to claim the cost of transporting a pet to a new home as a legitimate moving expense. And one entrepreneur was able to deduct the cost of cat food as a business expense because he used the food to attract feral cats in order to deter snakes from a scrap yard.
- A sperm donor claiming the depletion allowance.
- A business owner who hired an arsonist to torch his business and deducted the money paid the arsonist as a consulting fee.
- A Texas rancher accompanied his accountant to the rancher's first audit. When the rancher's tax depreciation schedule listed 20 animals as breeding stock, the IRS Agent asked the rancher if he bred the animals. No, the rancher said, he had a bull for that.
- The taxpayer who dropped his dentures in the toilet and claimed the casualty loss as an act of God.

WAYS TO AVOID AN AUDIT

In 2001, 1 in 174 taxpayers were audited, but these numbers vary greatly by region and by tax bracket. Low-income filers are twice as likely to be audited as high-income filers, but high-income filers in Los Angeles were 8 times more likely to be audited than those in Georgia. The formula the IRS uses to determine who gets audited is a closely guarded secret, but every return filed receives a computer-generated score upon filing. The IRS is grading audit potential and the more your return deviates from the norm, the higher your score. About 10% of the highest-scoring returns are passed on for examination by an IRS employee who determines whether it warrants an audit. To stay out of that deadly ten percent: (1) Keep it Neat. The worst thing you can do is turn in a hand-written return. You want your return to at least look like it was prepared by someone paying attention to detail. (2) Include All W2s and 1099s. The IRS receives copies from your payors, so if your return does not include all of the income reported to the IRS by third parties, your failure to include will at least result in a query if not an audit. (3) Claim Business Expenses With Care. Large and usual deductions raise red flags. In 2002 the IRS Small Business/Self-Employed Division beefed up its staff to crack down on excess business travel expenses and home-office expenses. (4) Document Your Deductions. If you do have unusual items, do a good job of explaining yourself. (5) Check Your Return. Check your math, your Social Security number, and don't forget to sign it. You do not want any more correspondence with the IRS than is necessary.

11 OTHER SILLY TAX SCAMS

The IRS has issued a nationwide alert to taxpayers to warn them not to be a victim of these other tax scams:

1. No Taxes Withheld from Your Wages. Illegal schemes are being promoted that instruct employers not to withhold federal income tax or employment taxes from wages paid to employees. These schemes are based upon an incorrect interpretation of tax law and have been refuted repeatedly in court.
2. "I Don't Pay Taxes! Why Should You? Con artists will talk about how they don't file or pay taxes and then charge a fee to share their secret. The real secret that they do not reveal is that many of them in fact do pay taxes. The IRS reminds us that failure to file or pay taxes is subject to civil or criminal penalties.
3. Pay the Tax, Then Get the Prize! The caller says that you have won the prize and all you have to do is to pay the income tax due. Don't believe it. If you have really won a prize, you may need to make an estimated tax payment to cover the taxes that will be due at the end of the year, but the payment goes to the IRS and not the caller. A legitimate prize giver will send to you a Form 1099 showing the total prize value that should be reported on your tax return.
4. Untax Yourself for \$49.95. This one is as old as snake oil, but people continue to be taken in. And now it's on the Internet. The ad will say that paying taxes is voluntary, but it is absolutely wrong. The United States courts have continually rejected this and similar arguments. Unfortunately, hundreds of people across the country have purchased the "untax packages" before finding out that following the advice contained within can result in civil and criminal tax penalties.
5. Social Security Tax Scheme. Taxpayers should not fall victim to a scam offering them refunds of the Social Security taxes that they have paid during their lifetimes. This scam works by the victim paying "paperwork" fee of \$100.00 plus a percentage of any refund received to file a refund claim with the IRS. This hoax fleeces the victims of the up-front fee.
6. I Can Get You a Big Refund – For a Fee. Refund scheme operators may approach you wanting to "borrow" your social security number or give you a phony W-2 so it appears that you qualify for a big refund. They may promise to split the refund with you, but the IRS claims to catch most of these refund claims before they go out. And when the IRS does issue a refund, the participant ends up paying back the refund along with stiff penalties and interest.
7. Share/Borrow Dependents. Unscrupulous tax preparers "share" one client's qualifying children with another client in order to allow both clients to claim the Earned Income Tax Credit. For example, if one client has four children, but they only need to list two for EITC purposes to get the maximum credit the preparer will list two children on the first client's return and list the other two on another client's tax return. The preparer and the client "selling" the dependents split a fee. The IRS prosecutes the preparers of such fraudulent claims and participating taxpayers could be subject to civil penalties.