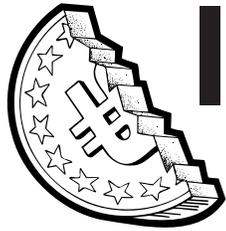


Scott Kauffman's...



IRS Tax Advocate



A Legal Newsletter

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

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Learn How to Avoid

IRS

problems and solve
them if you find
yourself with one!

Inside This Issue...

Justice Department Nails
Orange Tax Preparer.....page 1

IRS Prosecutions of
Accountants Doubles.....page 1

Two New Tax Scams!.....page 1

Another reason not to Answer the Phone at
the Dinner Hour.....page 2

Tax Scams Targeting
Medical Professionals.....page 2

Compromising with IRS can take
Extraordinary Patience.....page 2

IRS Fires 71 Employees.....page 2

Bunny Hop.....page 2

Do Tax Amnesties Work?.....page 3

IRS Misplaced 2300 Computers.....page 3

IRS Permitted to Terminate
Offer in Compromise.....page 3

IRS Vows to Crackdown
on Tax Cheating.....page 3

IRS Warns of Identity and
Financial Theft Scams.....page 3

A Cheating Epidemic.....page 4

Questionable Tax Deductions
Exceed \$16 Billion.....page 4



"Let's just say, with accounting, it's best to think inside the box."

JUSTICE DEPARTMENT NAILS ORANGE TAX PREPARER

The Department of Justice announced that a former tax preparer at Western Tax Services in Anaheim has been barred from preparing income tax returns for seven years. Joe Shields agreed to a consent decree, but without an admission of wrongdoing. Shields is one of five local men sued in March by the Justice Department for allegedly inflating charitable contributions and business and home office expenses on over 18,000 federal income tax returns prepared since the late 1990s, costing the government in excess of \$30 million in unpaid taxes. Western Tax Services is a high-volume tax-preparation service whose clients are primarily middle-income wage earners. Clients were referred by friends or relatives who were pleased with the refunds that averaged around \$2,500. Western charged its clients between \$300 and \$3,000 per return. Western remains in business, but continues to be under investigation by the Justice Department. A class action lawsuit has also been filed in behalf of the victims.

IRS PROSECUTIONS OF ACCOUNTANTS DOUBLES!

The IRS is stepping up prosecution of accountants and other return preparers as it combats the growing problem of fraudulent refunds. In the last calendar quarter of 2002, the IRS referred 79 cases to the Justice Department for criminal prosecutions, a significant increase over the same period last year. The IRS is hoping that its aggressive stance will give preparers pause about inflating expenses or claiming bogus credits and deductions for clients. For all of 2002, criminal investigations of preparers rose to 254 from 116 in 2001. The IRS referred 89 cases to the Justice Department, up from 73 in 2001.

TWO NEW TAX SCAMS!

The IRS has issued a warning detailing two new tax scams. One scheme targets the families of those serving in the military and the other at email users. In both schemes, the perpetrators purport to be representatives of the IRS and represents to a family member that he is entitled to a \$4,000 refund because his relative is in the armed forces and then requests a credit card number to cover a \$42 fee for

IRS FIRES 71 EMPLOYEES

The General Accounting Office reported that between July 1998 and September 2002 the IRS fired 71 employees for misconduct. The IRS investigated 3,512 allegations and substantiated 419 as violations. Among the violations were failures to file tax returns on time, failures to state tax liability accurately, threats to audit for personal gain, falsifying or destroying documents, retaliation or harassment, and assault and battery. Remedies in the other cases involved penalties and employees leaving the IRS.

BUNNY HOP

And you thought the IRS was the only government agency with problems. The State Department is now saying that it does not condone a visit to a Nevada brothel by an East Asian delegation on a State Department sponsored visit. Invited to the United States to study strategies for ending the scourge of sex trafficking, the delegation ended up at the Moonlite Bunny Ranch after learning about Nevada's legalized prostitution from a local historian. The owner of the Ranch reported that to his knowledge none of the 10 delegation members enjoyed the favors of the Bunny Ranch prostitutes. A State Department spokesman told the news services that the Department is now taking steps to ensure a closer monitoring of the international visitors program.

CHECK

Look back at newsletter issues, articles I've written, and general advice at my website"

www.besttaxadvocate.com

IT OUT

postage. The scammer provides an actual IRS toll-free number as the call back number in order to make the call appear legitimate. The scammer of course then makes numerous unauthorized purchases with the victim's credit card. In another scheme, the victims receive an e-mail that appears to be from the IRS. The e-mail contains a link to a non-IRS Internet web page that asks for personal and financial information. Such information could be used to steal the respondent's identity and obtain access to sensitive financial data or accounts.

ANOTHER REASON NOT TO ANSWER THE PHONE AT THE DINNER HOUR

In its budget request of the fiscal year starting October 1st, the Bush administration asked Congress to permit it to use private collection agencies to recoup as much as \$13 billion in back taxes. Overall, President Bush's budget raises the IRS budget 5.25%. During the 1990s, the IRS saw personnel levels decline and felt hamstrung by the 1998 Restructuring Act. One result has been soaring levels of uncollected taxes. Government-worker unions and their Congressional allies are all but certain to oppose the idea. Officials said that collection agencies would have only limited power to collect upon previously ascertained debts. The Bush administration also said it will ask Congress for an additional \$133 Million to audit higher-income earners and businesses that appear to be dodging taxes through offshore tax havens, abusive tax shelters, and other maneuvers. The Treasury Department said it expects the number of such audits to jump 72%. The current audit rate for high-income individuals is less than 1%.

TAX SCAMS TARGETING MEDICAL PROFESSIONALS

San Diego Doctor Sentenced

The IRS has released a fact sheet discussing tax scams and schemes targeted at the healthcare profession. During fiscal year 2003, 18 persons in the medical community have been convicted as a result of cases investigated by the IRS and referred to the Department of Justice for prosecution. The cases vary from failure to file personal income tax returns and Medicare fraud to money laundering. One case successfully prosecuted resulted in a 33-month prison sentence to Dr. Rick Shacket of San Diego for tax fraud conspiracy with his former attorney, Russell D. Ward. Shacket and Ward created a sham Oregon corporation and created a false identity for Shacket. Shacket used the corporation and his false identity to receive and hide from the IRS diverted corporate funds in an amount exceeding \$540,000 from Shacket's medical practice.

COMPROMISING WITH IRS CAN TAKE EXTRAORDINARY PATIENCE

The IRS is authorized to compromise with Taxpayers who show that they cannot pay their taxes. But the IRS's Taxpayer Advocate

IRS WARNS OF IDENTITY AND FINANCIAL THEFT SCAMS

The IRS has issued a warning of a fraudulent scheme that uses fictitious bank correspondence and IRS forms in an effort to mislead taxpayers into disclosing their personal and banking data. The information fraudulently obtained is then used to steal the taxpayer's identity and bank account deposits. In the scam, a letter purportedly from the taxpayer's bank states that the bank is updating its records in order to exempt the taxpayer from reporting interest or having tax withheld on interest paid on the taxpayer's bank accounts or other financial transactions. Banks are required to report interest to the IRS and taxpayers must include interest in gross income. The bank correspondence encloses a phony form allegedly from the IRS and seeks detailed personal and financial data. Recipients are urged to fax the completed form to a specific number within seven days or lose the reporting and withholding exemption, resulting in withholding of 31% on the account's interest. Once the information is obtained, the scheme's promoters use the information to impersonate the taxpayer and gain access to the taxpayer's finances.



*"Can you come back tomorrow?
He's doing his community service today."*

complains that the IRS takes way too long to decide on Taxpayers' offers. The IRS claims that the average backlog is ten months, but some cases take much longer. Meanwhile the number of applications is soaring. As of August, the backlog stood at 94,000, up from 62,551 nearly two years earlier. The IRS is responding by adopting an "inventory reduction program". My experience with this inventory reduction program is that the IRS will find some frivolous reason to dump a case. Pity the poor Taxpayer who does not know how to respond to irresponsible conduct by IRS employees.

DO TAX AMNESTIES WORK?

More states are trying them, but questions linger. In a typical amnesty, a state generally offers to waive penalties for those who voluntarily pay off their tax debts. Some states also waive interest. Amnesties are popular during recessions as a speedy way to raise cash without raising taxes. Critics complain that amnesties are unfair to honest taxpayers. Once a state adopts a policy of granting amnesty with each budget deficit, taxpayers have an incentive to delay payment and wait for the next amnesty. Some states, however, add the inducement of tougher enforcement after the amnesty period.

IRS MISLAID 2300 COMPUTERS

Senate Finance Committee ranking member Charles E. Grassley wants to know how much confidential information was stored on approximately 2300 IRS computers reported as missing. Senator Grassley is also demanding to know the status of 6 firearms, 50 communication devices, 40 identification badges, and 15 electronic surveillance devices reported as missing. Senator Grassley has said that if he is not satisfied with the IRS's response he may hold up IRS nominees or fight any increase in the IRS budget.

IRS PERMITTED TO TERMINATE OFFER IN COMPROMISE

The United States District Court for the State of Missouri has held that the IRS properly terminated an offer-in-compromise submitted by the president and majority shareholder of an S corporation when he incurred a tax liability after the offer-in-compromise was accepted. The government was authorized to pursue collection activities against the taxpayer for all of the tax liabilities, penalties, and interest previously forgiven even if the taxpayer had substantially performed all of the terms and conditions of his agreement.

IRS VOWS TO CRACKDOWN ON TAX CHEATING

While the IRS's own statistics show a very low audit rate, those numbers can be misleading. The IRS says that it still maintains an

A CHEATING EPIDEMIC!

The General Accounting Office (a congressional investigative agency) was sharply critical of the sharp declines in IRS audit and collection programs. Larry R. Levitan, chairman of the IRS Oversight Board, said that there is much evidence to suggest the IRS is facing an increase of corporate and individual behavior that makes going to any lengths to not pay taxes acceptable behavior. Taxpayers were asked in a survey what was an acceptable amount to cheat in paying their taxes. Last year, 76% said not at all, which is down from 87% in 1999. What this says is that nearly one-quarter of taxpayers believe cheating is appropriate behavior. The Government could be heading toward a noncompliance train wreck. IRS budget woes compound the problem. The IRS Oversight Board is very concerned that without additional meaningful resources, enforcement levels will continue to deteriorate.



extensive system for catching tax cheats. For example, the IRS has a "document-matching" program to cross check what taxpayers report against separate documents the IRS receives on such items as wages, interest, and dividends. One area of systematic noncompliance that will attract more IRS scrutiny is the use of abusive trusts to hide income. Estimates of revenue loss from such trusts run into the tens of billions of dollars. Other problem areas include erroneous refund claims, complex corporate tax shelters, tax scams, and unpaid employment taxes.

QUESTIONABLE TAX DEDUCTIONS EXCEED \$16 BILLION

In the broadest depiction yet of abusive tax shelters, the IRS said wealthy individuals and large corporation in recent years deducted more than \$16 Billion in improper or dubious tax deductions. The IRS gained the information through a special four-month long amnesty program that encouraged taxpayers to come in from the cold. In exchange for voluntarily disclosing tax shelters, taxpayers received immunity from IRS penalties (but not the tax and interest). Even IRS officials hardened to the realities of the tax shelter industry were taken aback by the size and scope of the disclosures received. The total of all the tax shelter writeoffs disclosed is likely much higher than \$16 Billion because many taxpayers did not list the amounts of their deductions. Those participating in the amnesty program were taking deductions of \$10 Million to \$300 Million. The disclosures are likely to boost momentum for tax-shelter legislation to beef up the government's ability to prosecute shelters that are promoted by major accounting firms and investment banks and assisted by major law firms.

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