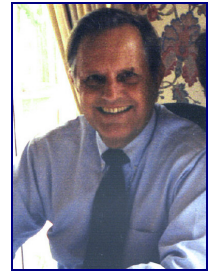


from *Chuck's Desk*

Affordable Business Services Inc.

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I welcome any comments or suggestions you may have.

Please call or e-mail me at your convenience.

If you enjoy reading my newsletter, the highest form of compliment I can receive is a referral to your friends, family and business associates.

Chuck Donovan

IRS Resumes Random Audit Program

Very quietly the Internal Revenue Service has decided to restart its practice of randomly targeting thousands of taxpayers for audits. The controversial activity was suspended in the mid-1990s when Congress complained the IRS was ruining taxpayers' lives with intrusive and time-consuming audits.

The IRS has promised that the new random audits will be kinder, gentler random audits than the ones in the 1990s.

Starting in October 2007 the IRS will randomly select 13,000 taxpayers and send them "Dear Taxpayer" letters telling them they have been picked for a special audit. It is part of the Service's new National Research Program designed to give it a better understanding of how accurately income and deductions are reported.



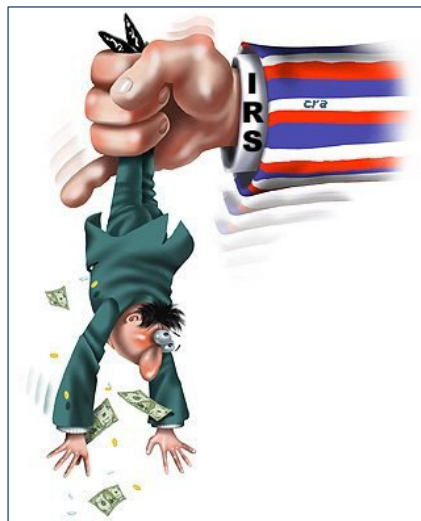
Three Types of Audit

The random audits will take three forms:

1. **A spot check** of the tax return.
2. **A letter requesting information** on various income and deduction items within their tax returns.
3. **A sit down meeting** with an examiner to review their tax returns line by line.

The IRS has indicated that **the majority** of the random audits **will be in-person meetings with examiners** who will ask more detailed questions than in a regular audit. Some of extra questions will be to gather data for IRS researchers.

However on the other hand, it is likely other taxpayers will not know that their return has been spot checked because reported income and deductions were verified from third party documents such as W-2s and Forms 1099.



Likely Candidates for an Audit

The IRS is particularly interested in looking at people who work for themselves, deal with large amounts of cash, have high incomes, are self-employed, or do not have taxes withheld from their paychecks. Historical research has shown that tax noncompliance is highest among them. The other category which will receive scrutiny is small business corporations S Corporations.

Congress wants the IRS want to look at

Affordable Business Services provides a complete range of tax, accounting, and consulting services to individuals and businesses at affordable fees.

Chuck Donovan started the firm in 1993 with a single principle in mind – to provide quality financial services that meet and suit his clients' needs. He has built a successful operation by combining personal attention and expertise with quick, accurate, friendly service.

The company's growth has been fueled by referrals from existing clients and peers. The hallmark of Affordable Business Services remains the individualized service that addresses clients' unique requirements small or large.

Chuck is a graduate of Dartmouth College and has a MBA in Accounting and Finance from American International College.

capital gains taxes. There is a general feeling that the government is losing billions of dollars in tax revenues because investors are inflating the cost basis of their stocks to report lower capital gains on the stocks when they are sold.

Congress is considering legislative proposals that would require brokers and financial services companies to report what investors pay for stocks and other securities.

Congress Demands a Reduction of Tax Gap

The resumption of the random audit programs results from the IRS's facing severe demands from Congress, pressured with large budget deficits, to be more proactive in reducing **the tax gap, the difference between the amount the government collects annually and the amount the government should be collecting.**

In tax year 2001 this shortfall was \$290 billion and has been growing larger over the years.



The IRS is now become very concerned by this issue. According to Mark Mazur, the IRS director for research, analysis and statistics, 80 percent of gap results from the underreporting of income on the returns. He does acknowledge that the remaining 20 percent occurs because taxpayers do not pay the taxes calculated and owed on a return and do not file a return.

The resumption of the random audit program is an effort to reduce the gap. These audits will help the IRS to do a better job of selecting taxpayers who have a higher probability of errors on their returns and help the service in reducing the gap.

IRS's Top Secret Selection Program

The IRS uses a computer program called the Discriminant Inventory Function System to identify returns to audit. Updated several years ago, the program scores tax returns to determine those most likely to have errors and result in tax changes.

However, in the mid-1990s tax preparers could get the details of the scoring system used then. The personal one showed percentage ranges of exemptions, deductions and its subcategories, capital gains, interest and dividends, pensions, and other sources of income for various levels of gross and taxable incomes.



The business ones were broken down by business activity code. It showed the percentage ranges of every expense taken normally by the businesses in the business activity code as well as balance sheet and distributions information.

This information was very helpful. From the annual updates I received I was able to discuss individual returns in much greater detail and point out potential problem areas.

Then the IRS decided not to give out the information and now keep the details and formulas of the Discriminant Inventory Function System top-secret.

Logic says the Discriminant Inventory Function System is similar to the scoring system used in the 1990s.

Conclusion

The number of taxpayers who will be affected by the random audit program is a very small share of the 135 million returns filed annually. From all indications these audits are here to stay for the foreseeable future.

If you do win the in-person meeting lottery, you can expect it will be a grueling unpleasant experience.

You can now find back issues of *“from Chuck’s Desk”* on our web site www.affordabl.com

Click on the Newsletters tab for the issues of the newsletter from 2002.

My Thoughts on E-Mails

I receive many e-mails in my Inbox each day. My spam blockers reject an equal number daily.

I pay close attention to the Inbox ones whose subject lines appear to be well thought out and indicate my time and attention are being respected. The ones with strange and confusing subject lines do not get much attention. After all why should I devote much time looking at them when from my prior experience I shall end up deleting them.

In fact, **I wonder often why some of the Inbox ones were sent to me in the first place.** For example, I got one in August which said “Meet and Greet Alex Arreaza”. I had no idea who he is, why he would be of interest to me, and why they thought I should get it to begin with. It went into the waste basket.

I am sure this happens to you also. I have put together several thoughts on what I feel constitutes an e-mail worthy of someone’s time and attention.

Well, they are:



Write a Good Subject Line

A good rule of thumb on subject lines is to remember you may know what

you are writing about but your recipient may not. You need to give the reader enough, clear information for the recipient to feel like reading the e-mail. **The subject line** should highlight the high point or summarize the message. It **needs to seize the reader’s attention.**



The subject line indicates what the e-mail is about and why it will be of interest. **Much like a headline on a newspaper article, it should make the person anxious to read it.** It should be brief,

does not have to be a complete sentence, and gives an idea about the content of the message. It makes it easy for a reader to immediately understand why it has been sent and indicates what, if any, kind of response or action may be needed.

On the other hand, though, **an e-mail without a subject line should raise a caution flag.** So much has been written about hackers breaking into programs, stealing e-mails addresses, and sending out bogus e-mails to the addressees. These resulting e-mails could contain viruses. I delete these e-mails immediately.

Be Concise

You have to think about your message before you write it. Countless times I have received e-mails which are as long as a novel and contain numerous long, endless

paragraphs. Readers get lost when endless paragraphs flow across a page and into one another.

Think about the newspaper articles again. There is a good reason why their paragraphs are kept short, no more than three or four sentences each. Editors learned years ago that, if they intended to grab and hold a reader's attention, many short paragraphs were much better than a few very long ones.

The same approach needs to be applied to e-mails. **Keep the messages concise.** It has been claimed that an ideal length for an e-mail is about five sentences.

Spell Check the Text

I have received e-mails that are not only poorly written but also full of misspellings. These e-mails tell me the writer didn't think enough of the e-mail's intent to take time to do it right before hitting the send button.



The words used in an e-mail message are a cue to a person's language ability. If there are misspellings, subjects that do not agree with the verbs, or wrong words used, the reader can assume that you are not very smart. While there is really no relationship between language and intellect, you can be sure this assumption will be made.

In fact, **many recipients become upset by e-mails with errors, in particular misspellings and typographical ones.** It tells them that you either did not think enough of your message to be careful or rushed it off in a hurry without rereading it. They may feel it is not courteous to send such an e-mail and an imposition upon their

time.

All e-mail programs have grammar and spell checkers. **It takes only a few seconds to check the message. The grammar and spell checkers should always be used before an e-mail is sent.**

Cutesy Additions - Backgrounds, Stationary

Much has been written about e-mail etiquette. Without exception **it is recommended not to use a solid colored background, a stationary background, or larger than normal font. The reasoning is these cutesy additions distract from an e-mail's message.**

These additions do show originality, creativity, and imagination, but they are distracting. The other day I got one on stationary having a tan background with a monkey at a computer. The stationary was so overpowering that it was very difficult to read the text in the e-mail. Putting the message onto the stationary with the tan background and monkey took away from the message's value and importance.

A normal black font on a white background is the best, most courteous way to send an e-mail.

Summary

Before you type anything, think about why you are writing the e-mail and what you want to result from it. Think about it from your recipient's point of view. If it is valuable, treat it as such and put time into writing it. And **above all, reread your entire e-mail and spell check it before hitting the send button.**

Do you need to be Incorporated?

We can provide you with Articles of Incorporation, Minute Book, Stock Certificates, and Tax ID and Small Business Election papers.

Do you need a Living Trust to replace your will?

We can provide you with a Living Trust that will eliminate probate and legal costs.

Do you need a Durable Power of Attorney for Health Care, a Living Will, and a Designation of Health Care Surrogate?

We can provide you with a complete set of documents that will put your mind at ease when medical situations arise.