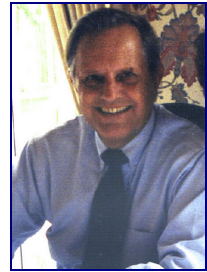


from *Chuck's Desk*

Affordable Business Services Inc.

www.affordabl.com

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Affordable Business Services Inc.
 8105 N.W. 58th Place
 Fort Lauderdale,
 FL 33321-4520

Tel. (954) 720-8750

Fax: (954) 720-1913

E-Mail:

cdonovan@bellsouth.net

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www.affordabl.com

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

Joint Bank Account with a Non-Spouse

I was making a bank deposit a few months ago when **I heard a senior becoming very excited and angry with the teller next window. It seems she was trying to put money into one of her accounts and was being told the account was closed. She was furious.**

I heard her say that only she and her niece were authorized to deposit and withdraw money from the account. The teller was finally able to convince her that **her niece had taken all the funds and closed out the account.**

A bank account like hers is not uncommon. **Many seniors have an account which is shared by two or more persons.** It is a popular way of avoiding probate and providing flexibility to a senior unable to go to a bank or to physically write checks.



Non-Spouse Has Ownership Rights Too

Frequently the account is shared with a non-spouse - a child, relative, or friend - such as this case. What this means is that the non-spouse is also the owner of the account having the right to make deposits and withdrawals from it. When an account like this is set up, **each one is a joint tenant having an ownership interest** with the respective parties owning the bank account together.

Such an account requires a great deal of trust between the senior and the other person. Trust is very important. The shortcoming of joint ownership is that either person could take all the funds and the other person would not know about it until after it had happened. Recovery of the money may not be possible, as the bank is not responsible for questioning any activity in the account by either person.

How Can You Protect Yourself

The question is how you can have flexibility in your bank account without giving up any ownership in it. There are a several possible ways to protect yourself against such a situation that I witnessed. These **options are:**

- Require **dual signatures** on any withdrawals from the account,
- Prepare a **durable power of attorney** authorizing the other person to make deposits and sign checks on the account,
- Prepare a **living trust** allowing the successor trustee to manage the account if you become incapacitated.
- Ask the bank for a **statutory joint account**, in it rules

can be set out regarding who owns the money now, has the right to make withdrawals and deposits in your interest, and gets the money upon death.



- Designate your own bank account a pay-on-death one to avoid probate and also avoid creating a joint ownership.

New Account May Be Necessary

If you do currently have a joint bank account and want to change it, you may have to set up a new bank account and transfer the funds in joint one to it. A bank may not allow you to change the joint bank account with the permission of the other owner, but will not challenge your right to withdraw the money in the joint account. You can then set up the new account to give yourself the flexibility and protection you may wish.

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 his 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.

Mailing Your Tax Data

When money is owed to the Internal Revenue Service, it is human nature that people wait as late as possible to send it. I am asked frequently **how close to the last minute can someone mail in his tax data and not incur the wrath of the IRS.**



The deadlines for personal returns are April 15. There are other deadlines – March 15 for business returns, September 15 for extensions on business returns, October 15 for extensions on personal returns, and April 15, June 15, September 15, and January 15 for estimated tax payments.

IRS Looks at Postmark

You need to be aware that the **IRS looks very closely at the postmark on all mail received around and after any of these deadlines.** If the postmarked date is afterwards, they send out a letter requesting more money for filing late. You certainly do not want this to happen.

Therefore, I always recommend that **you do not cut it too close** on any of these deadlines. **You should take your information for any of the above filings directly to your local post office and place it into the mail slot inside of the building.** My feeling is, if you do this about noontime on the respective deadline, you can be assured that it will be processed and postmarked the same day.



I would **never put it into the mail box outside of the building, give it to your carrier, or leave it in your home’s mail slot to be picked by the carrier.** You have no assurance when or how frequently the outside box will be emptied that day (despite the schedule appearing on it) or when your carrier will return to the post office that day. The mail then needs to be processed and postmarked - generally at the end of the day. There is a high risk that the next day’s postmark will be placed on it.

Meet the Deadlines

The post office recognizes our human nature with regard to the April 15 deadline. On April 15 several post offices stay open into the early evening and a couple until midnight to accept tax return mailings. These mailings are always postmarked April 15.

However, **the same service does not apply to the other deadlines.** The deadlines which cause the most problems to taxpayers are the October 15 one for extensions on personal returns and the January 15 one for the fourth estimated tax payment.

I have seen the IRS assess penalties promptly on extension filings postmarked after October 15 and seen the Service consider any estimated tax payments postmarked after January 15 as applying to the current year rather than the prior one.

Tax System's Fear Factor – An IRS Audit

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.



Psychologists say the fear of an unpleasant event can often be more traumatic and disruptive than the actual event. **Most taxpayers would prefer to undergo a root canal than an IRS audit.** The mere thought of a telephone call from, a letter from, or a meeting with the IRS frightens us.

The IRS reviews between 2% to 3% of all tax returns filed each year. Since about 130 million are filed annually, they will review around 4 million of them.

Will I Be Audited?

“Will I be audited?” is a question I am asked a lot each year.

Well, it depends. As soon as tax returns come in, the IRS checks them for accuracy. Then a computer program compares them against average return models and flags uncommon items such as high income, large or unusual deductions, self-employment expenses, and unusual types of businesses. Returns could be selected at this stage for review, examination or audit based on the number of flagged items.

Moreover the IRS has very specific methods for handling the returns they receive. These are:

Differential Income Factor Method (DIF)

DIF is a **mathematical technique used to score individual, corporation, S corporation, and partnership returns as to examination potential.**

Each receives a DIF score based on the amount of income reported and deductions claimed. Basically, the higher the deductions are relative to income, the higher the DIF score will be and the greater the possibility a return will be reviewed.

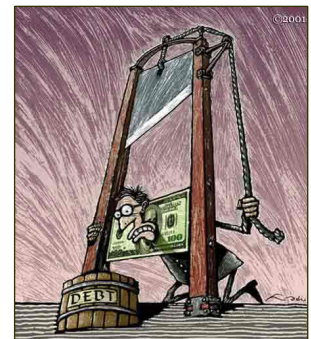
For example, if you report income of \$50,000 and claim medical expenses of \$8,000 or mortgage interest of \$14,000, you will have a higher DIF score than a taxpayer with the same income who claimed only \$4,000 in medical expenses or \$7,000 in mortgage interest.

When the score exceeds a particular threshold for the reported income, the return becomes an audit candidate.

Information Returns Factor Method

The IRS records the social security numbers from all W-2s and 1099s filed each year and matches them to the social security numbers on tax returns.

If you received \$1,000 in interest from a bank but reported only \$500 on your



return, it will be caught based on your social security number. As a result, getting a notice from the IRS should not be a surprise to you.



Random Selection Method

You may be selected at random. **Simply stated, you got “lucky”.** All returns are entered into a computer random number selector. Those with high DIFs and non-matched information are eliminated.

Then a certain number are picked randomly to make sure about 4 million returns are audited annually.

Types of Audits

The IRS performs essentially **two types** of audits.

1. A **Correspondence Audit** in which they send a taxpayer a letter requesting additional information. For example, the total of the 1099s issued to the taxpayer does not match the income reported on the return.
2. A **Field Audit** is one in which an auditor comes to your place and reviews your records.

Who Gets Audited

Individuals making \$100,000 or more and those making \$25,000 or less are much more likely to face an audit than those with income in between. The IRS seeks out returns with a high probability of generating more revenue.

High income taxpayers have generally more complicated returns with more opportunities to hide income or create deductions.

Although the low income people have usually simple returns, many claim earned income tax credit, a low income refund program on which the IRS has focused to cut down on mistakes and fraud.

Audit Returns Likely to Generate Revenue

Since the IRS looks for returns with **a high probability of generating more revenue**, not only is income a consideration but also such factors as self-employment and profession. **People working in industries where they receive much of their income in cash are popular audit candidates.**

This includes waiters, gaming industry workers, dentists, and doctors. The bottom line is the more cash received and the higher the income potential, the more likely the IRS will find additional tax dollars by reviewing the returns.

COUGH IT UP!



Less Than 1% of Taxpayers Audited

I hope you do not get the feeling after reading this that everything is hopeless.

The audit rate for all taxpayers in 2001 was .58 percent, slightly higher than the previous year but much lower than years prior to 2000.

The reason is that **the 1998 tax reform law has passed with the aim to make the IRS more friendly. Its effect shows up in the numbers of returns reviewed and audited.**