

Tax in Media

I have always told my wife, Lynn, that there should be a television show involving a CPA, Enrolled Agent or tax professional as the star solving compelling tax issues for his/her clients week after week.

Why should doctors, lawyers and police get all the limelight? Lynn just looks at me and responds that there are no shows involving accountants because network TV wants its audiences to stay awake. In actuality, the topic of taxes has been a part of the story lines of hundreds of TV episodes and movie scripts.

In one of my favorite shows from the 70's – "The Odd Couple" – Felix receives a letter from the IRS to come down to the IRS office, but it fails to tell him why. Before Felix finds out the reason for his being summoned, he exclaims how his roommate Oscar is anything but compliant with the tax law and why shouldn't he be called. He finds out that he only needs to sign the check that he sent in with his tax return. The IRS proceeds to audit Oscar, but Felix comes to the rescue when it is discovered that Oscar forgot to deduct his alimony payments to his ex-wife Blanche.

In the movie "Look Who's Talking", Kirstie Ally is an accountant/bookkeeper from an accountant/bookkeeper family comprised of Olympia Dukakis and George Segal, who, even at the dinner table, are putting a "ten-key" through its paces.

Also how about the movie "Happy Gilmore", named after the main character, played by Adam Sandler, who comes to the rescue when he finds out that the IRS has seized his grandmother's house for non-payment of income taxes. In the story line, Happy, a lackluster hockey player turned pro-golfer with a wicked long ball shot, eventually wins enough money on the golf tour to pay off the outstanding tax bill to get his grandmother's house back.

Lastly, in the movie "Ghostbusters", accountant Louis Tully, played by Rick Moranis, is the consummate accountant trying to win the heart of Dana Barrett (Sigourney Weaver) by touting simple tax and economic strategy in everyday life. Louis even has a party to entertain a group of his clients. He proceeds to work into every conversation his tax savings tips involving the costs of the party and the economic common sense of buying generic aspirin.

Yes, it is easy to portray an IRS agent as shallow or antagonistic and geeky accountants as totally devoted to their work and their clients. The foibles of people dealing with their tax problems on their own are legendary. It should be remembered that accountants and tax professionals take their jobs and their clients situations very seriously. Here at Valicenti Advisory Services, Inc. we put our clients first. If you receive a letter from a tax authority, please let us know immediately. The staff at Valicenti's is trained to deal with tax agents, bringing years of experience and the ability to optimize the tax law to our clients' advantage wherever possible.

To those of you who are tax clients, we thank you for the confidence that you have in our services. To those of you who aren't tax clients, we'd appreciate an opportunity.

~ Paul E. Hornbuckle, CPA
Tax and Business Services Manager

Volume 9, Issue 1
May 2008



Asset management
as individual as you

With Offices at:

400 East Water Street
Elmira, NY 14901
(607) 734-2665
(866) 734-2665

24 West Market Street
Corning, NY 14830
(607) 936-1205

350 West Church Street
Elmira, NY 14901
(607) 733-9022

www.valicenti.com

**PASS
IT
ON...**



If you think we do a good job for you, please refer your friends and family. We will make sure they can't wait to thank you!

Economic Stimulus Payments

Starting in late April 2008, the Treasury began sending economic stimulus payments (otherwise known as “tax rebates”) to more than 130 million households. To receive a payment, taxpayers must have a valid Social Security number, \$3,000 of income and must file a 2007 federal tax return. The IRS will take care of the rest. Eligible people will receive up to \$600 (\$1,200 for married couples), and parents will receive an additional \$300 for each eligible child younger than 17. Millions of retirees, disabled veterans and low-wage workers who usually are exempt from filing a tax return must do so this year in order to receive a stimulus payment.

Even though April 15 has passed, there is still time for retirees, disabled veterans and others who normally do not file a tax return to submit a 2007 form to receive an economic stimulus payment.

Of those people who filed their 2007 tax returns and requested direct deposits of their refund, they will receive their rebates via direct deposit. If a taxpayer chose to take a tax refund as a direct deposit to an IRA account, their stimulus rebate will be directly deposited into the IRA. The IRS has recently announced that for people whose rebate is placed into one of the tax favorable accounts such as an IRA, a health savings account (HSA), an Archer MSA, a

Coverdell education savings account (CESA) or a qualified tuition program account (QTP or section 529 program), the amount may be removed without incurring any adverse tax consequences. To further explain, the amount withdrawn will not be subject to regular federal income tax or to any additional tax or penalty under the Code.

If you or anybody that you know falls under this, he/she will receive instructions from the IRS as to how to properly report the distribution on the 2008 tax return so it is not taxed.

Remember that the stimulus payments are not taxable by either Federal or State tax authorities. If you are receiving a federal tax refund for 2008, the stimulus payment will not be deducted from your 2008 tax refund.

It should also be noted that not all people are eligible for a stimulus payment. To qualify for a payment, an individual or any qualifying child must have a valid Social Security number. In addition, individuals cannot receive a payment if they were claimed as a dependent of another taxpayer or if he/she were nonresident aliens or residents of United States possessions.

For taxpayers with adjusted gross income of more than \$75,000 (or more than \$150,000 if married filing jointly), the payment will be reduced or phased out completely.

All individuals are supposed to receive a notice and additional information shortly before payment is made. If you have further questions on this topic, please

call our office or visit the IRS website at www.irs.gov.



Stimulus Payment Schedule for Tax Returns Received and Processed by April 15

Direct Deposit Payments	
If the last two digits of your Social Security number are:	Your economic stimulus payment deposit should be sent to your bank account:
00-20	May 2
21-75	May 9
76-99	May 16
Paper Check	
If the last two digits of you Social Security number are:	Your check should be in the mail by:
00-09	May 16
10-18	May 23
19-25	May 30
26-38	June 6
39-51	June 13
52-63	June 20
64-75	June 27
76-87	July 4
88-99	July 11

Are You Ready For An Audit?

It must be remembered that the IRS's primary reasons for existing are enforcement and collection. It is Congress that makes the rules and tax laws. Even though the IRS has recently vowed to implement tighter enforcement, the probability of an individual being subject to a full blown audit remains very small. In fiscal 2007, one – on – one exams were performed on approximately 240,000 tax returns. There were approximately 135 million individual tax returns filed in the United States during fiscal 2007. Contrary to those numbers, limited reviews conducted by mail exceeded 1.1 million. In fact, I know of several instances where the IRS has called either taxpayers directly or their tax preparers to verify information entered on the 2007 tax return. Correspondence audits will remain the norm for now. Even if the IRS had the money to hire new agents, it would take years to make them effective.

An important note, do not confuse being audited or reviewed by receiving a "matching" notice. "Matching" notices or CP2000 letters result from information being reported by a third party (i.e. your employer and the corresponding W-2 form) to the IRS and comparing that to the tax return that you filed with the IRS. When the two do not match, a letter goes out

to the taxpayer assessing the tax and interest and penalties on the unreported income. A lot of times the IRS does not have the entire picture and the tax assessment is overstated (i.e. unreported gross proceeds on a stock sale and the related cost basis of the stock is not taken into account). If you receive a letter from the IRS or a state tax authority, please bring it to our attention immediately. The sooner you can answer notices the better. As notices go unanswered, it is harder to correct the issue. If enough time passes, the only way to resolve the issue is either to go to tax court or to pay the assessment, which at that point may be the cheaper alternative.



Canceled Debt And Mortgage Forgiveness

Generally, if a debt you owe is canceled or forgiven, other than as a gift or bequest, you must include the canceled amount in your income. A debt includes any indebtedness for which you are liable or which attaches to property you hold. The form that the canceled debt gets reported on is Form 1099-C. If interest is

included in the canceled debt, it may be includable in income. If the interest would be deductible if it was paid, as in the form of a business loan, the interest portion of the canceled debt would be excludable. Canceled debt can come about as a result of a debtor writing off a balance due to them as a result of nonpayment or if the debtor makes a settlement payment for less than the amount due. The difference between the face amount of the debt and the settlement amount paid is reported as income. This usually comes about in situations where the debtor is having cash flow or income problems.

Contrary to the situation above, but with similar results, a debtor that has a surplus of cash and decides to pay down debt must be wary of the income that can ensue from an early payoff of certain debt. If your financial institution offers a discount for the early payment of your mortgage loan, the amount of the discount is canceled debt, and must be included in your income.

In light of the sub-prime lender debacle that we are currently experiencing, the government has enacted the Mortgage Forgiveness Debt Relief Act of 2007.

The IRS explains the tax break this way: "Taxpayers can exclude up to \$2 million of debt forgiven on their principal residence. The limit is \$1 million for a married person filing a separate return. This provision applies to debt

forgiven in 2007, 2008 or 2009. Debt reduction through mortgage restructuring, as well as mortgage debt forgiven in connection with a foreclosure qualify for this relief.”

As with anything, there are several exceptions to the rules as presented above. One such exception involves student loans. Certain student loans contain a provision that all or part of the qualified loan will be canceled if you work for a certain period of time in certain professions for any of a broad class of employers. You do not have income if your student loan is canceled after you agreed to this provision and then performed the services required. The loan needs to have been made by certain government or institutional agencies or the educational institution itself. Another exception to including canceled debt in income is if the payment of the debt would be deductible. This exception only applies if you use the cash method of accounting. Generally, if the seller reduces the amount of debt you owe for property you purchased, you do not have income from the reduction. The reduction of debt is treated as a purchase price adjustment and reduces the cost basis of the property purchased.

Finally, do not include a canceled debt in your gross income in the following situations:

- The debt is canceled in a bankruptcy case under title 11 of the U.S. Code.

- The debt is canceled when you are insolvent. You cannot exclude any amount of canceled debt that is more than the amount by which you are insolvent.
- The debt is qualified farm debt and is canceled by a qualified person.
- The debt is qualified real property business debt.
- The cancellation is intended as a gift.



AMT-What's New?

In 2007, Congress and President Bush extended and put in place higher exemption amounts \$66,250 for married filing joint (MFJ) returns and \$44,350 for single returns in calculating AMT. This saved millions of taxpayers thousands of dollars in additional tax. However, what was signed into law on December 26, 2007 expired on December 31, 2007. Now the exemption amounts are \$45,000 for MFJ returns and \$33,750 for single returns. My guess is that nothing will be done to extend the exemption amounts until after the elections in November. This makes tax planning difficult since, under current

law, you may be subject to AMT for a few thousand dollars, up to 5 figures. If an extension of the exemption goes into effect, this will lower the tax calculation. It becomes a gamble as to whether you make higher tax payments throughout the year or possibly be subject to penalties if the exemption amounts are not extended and you do not make tax payments throughout the year. There is much discussion amongst members of Congress and presidential hopefuls to eliminate the AMT altogether. The problem for the government remains how to replace the lost income if the AMT is repealed.

Our location at 350 West Church Street has become familiar to our clients. With adequate parking in the back, it is a convenient location to meet with tax preparers to discuss tax questions and solutions.

Please call our office at (607) 733-9022 in order to set up appointments and to speak directly with one of our tax specialists.



Located at the northwest corner of West Church and Columbia Streets.

This document was not intended or written to be used, and it cannot be used, for the purpose of avoiding tax penalties that may be imposed on the taxpayer.