

Wealth Wisdom

JUNE 2005

CARPE DIEM

Social Security - What does it all mean?

The debate about Social Security rages on. Facts and figures are touted by the talking-heads every evening on the news. So-called experts interpret the data in so many different ways, one can only ask themselves, "what does it all mean?"

First, the Social Security debate does affect you. Every week most of us pay into a system destined to be severely strained by the retirement of the baby boom generation. Workers under the age of forty have little or no realistic possibility of collecting anything. Most taxpayers pay more in Social Security taxes than in Federal Income Taxes.

Secondly, nothing is going to be done to significantly change the current system until it simply collapses *due to mathematical impossibilities*. The AARP lobby is working hard to enslave the post-baby boomer generations and force them to continue funding a system they allowed to be pillaged at every turn. Is it really fair?

Social Security tax, which started in 1935 at 1%, now exceeds 12.4%. The baby boomers will cause a surge in tax rates when they retire.

The tax rate will eventually reach a level where a majority of taxpayers will oppose further increases (a taxpayer revolt). No one knows today what level of tax will cause the revolt — is it 15%, 20%, 30% or 50%?

Like any Ponzi scheme, it is safe to say that the current structure can't continue indefinitely.

What does it all mean for you?

1. Have a written plan for creating income streams. See the chart on page 3 on different types of passive income.
2. Commit to increasing your retirement savings by one or two percent each year. You will have to be more proactive about funding your own retirement.
3. Get professional guidance on developing a wealth plan and long-term strategy for the future. We can help!

New Book By Jon Jaques, CPA

Do you have a high school or college student in your family? If so, they need the recently published, "20 Money Mistakes College Students Make, a Guide for Students and Those Soon To Be". This booklet covers most of the financial landmines college students face. Sadly, the average college student graduates with \$8,900 in credit card debt, \$16,000 in student loans, and they will spend 3-5 years cleaning up college credit issues. Available for \$6.00 in print or PDF format. Call today!

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SPECIAL POINTS OF INTEREST:

- **Social Security. Pyramid scheme. Will eventually fail due to mathematical impossibilities.**
- **Most investing is influenced more by emotions and certain stimuli than intelligence.**
- **No mistakes, no experience; no experience, no wisdom.**
- **Bad officials are elected by good citizens who don't vote.**
- **Live rich, die poor.**
- **Dividends are a sign of financial strength and quality.**
- **Life is largely a matter of expectation**
- **Planning is the power tool for achievement.**

Estimated Payments - Are They Required?

(Source: IRS Publication 505 and Form 2210)

The Internal Revenue Service is handing out more estimated tax penalties than ever. Chances are if you owed Uncle Sam money on your last tax return, you may have gotten a letter after the 2004 tax filing season charging you with a dreaded tax penalty.

Luckily the Service provides for some safe harbors to avoid the penalty:

Withholding and estimated payments equaling the smaller of:

1. 90% of the current years tax,
2. 100% of the prior years tax (110% if taxpayer's

AGI was over
\$150,000).

I would suggest reaching the 110% safe harbor threshold if you are concerned about tax penalties. Raising your withholding amount will also reduce the likelihood of having an underpayment penalty.

Estimated payments for self-employed individuals are required to be paid in four equal installments to avoid a penalty. These payments are due April 15, 2005, June 15, 2005, September 15, 2005 and January 16, 2006 using Form 1040ES.

Please call us if we can help you eliminate the underpayment tax penalty.

Deducting Sales Tax On Your Return

Sales Tax Deduction

For tax years 2004 and 2005, taxpayers are allowed to deduct state and local sales tax from their individual tax return. You may take the actual taxes paid or use the Optional State Sales Tax Table provided by the Internal Revenue Service. In addition, if you purchased a motor vehicle, you may use the sales tax paid on the item as well as the Optional Sales Tax Table. Motor vehicle includes: cars, motorcycles, motor homes, recreational vehicles, sport utility vehicles, trucks, vans, and off-road vehicles. (This deduction is based on the adjusted gross income and is allowed only if you can itemize.)

We suggest either using the Optional Sales Tax Table amount or collecting actual receipts showing sales taxes paid. The sales tax deduction could be a significant deduction if you are able to itemize. For 2004, the sales tax deduction equaled or exceeded most taxpayer's property tax deduction.

For more information about this deduction, please call our office.

Don't Fall For Tax Scams

You may have seen that the IRS recently announced its annual listing of the “Dirty Dozen” most notorious tax scams. This was to remind citizens to be wary of too-good-to-be-true schemes that promise to greatly reduce or even eliminate federal income and payroll taxes. Not surprisingly, most deals that sound too good to be true are, in fact, not true. Nevertheless, people fall for them year after year and wind up paying money to shady promoters just for the privilege of getting in trouble with the government.

This year’s “Dirty Dozen” includes several new scams including abuse of tax rules governing charitable organizations and disreputable debt counseling agencies. The IRS also noted the continuing spread of identity theft schemes that prey on citizens via email, the Internet, and telephone. Con artists running these scams sometimes pose as IRS representatives.

According to IRS Commissioner Mark Everson, “The Dirty Dozen is a reminder that tax scams can take many forms. Don’t be fooled by false promises peddled by scam artists. They’ll take your money and leave you with a hefty tax bill.” Even worse, buying into illegal tax schemes could possibly lead to imprisonment and heavy fines. At a minimum, you could get stuck with bills for back taxes plus interest and penalties. Please pay attention to the following Dirty Dozen list, and then steer clear of these schemes and others that resemble them.

Dirty Dozen Tax Scams Exposed

1. *Misuse of Trusts.* For years, unscrupulous promoters have urged taxpayers to transfer assets into trusts with promises that income can be made tax-free; big write-offs can be claimed for otherwise nondeductible personal expenses; and that gift and estate taxes can be avoided. While legitimate trust arrangements can definitely have valuable tax-saving advantages, they are not cure-alls. As with other tax-saving strategies, you should seek the advice of a trusted professional before entering into a trust arrangement.

2. *Frivolous Anti-tax Arguments.* Promoters have made the following outlandish claims (among others): that the Sixteenth Amendment, which allows the federal government to collect taxes, was never actually ratified; that wages and salaries don’t count as taxable income; that filing returns and paying taxes is strictly voluntary rather than required by law; and that being required to file Form 1040 violates the Fifth Amendment’s rule against self-incrimination or the Fourth Amendment’s right to privacy rule. These and similar arguments are false, and taxpayers who make them have lost time and again in court. While taxpayers have the right to contest their tax liabilities in court, no one has the right to disobey or ignore tax laws.

3. *Return Preparer Fraud.* Dishonest tax return preparers can cause big headaches for taxpayers. These preparers cash in by skimming a portion of their clients’ tax refunds and by charging inflated fees for return preparation services. They attract new clients by promising large refunds without knowing any details about their potential clients’ tax situations. This is a classic “too-good-to-be-true” warning signal. Keep in mind that no matter who prepares your return, you will generally be held legally responsible for the return’s accuracy.

4. *Questionable Credit Counseling Outfits.* The IRS says citizens should be careful when they encounter credit counseling organizations that claim to be able to fix poor credit ratings. These outfits make money by charging high up-front fees, monthly service charges, and mandatory “contributions” that may actually make debt problems worse rather than better. Some disreputable credit services also claim tax-exempt status to create the illusion of legitimacy. The IRS has recently given higher priority to auditing credit agencies claiming tax-exempt status.

5. *“Claim of Right” Deduction.* Under this scheme, the taxpayer is directed to file a return that claims a deduction equal to the entire amount of his or her wages. The promoter advises the taxpayer to label the deduction as “a necessary expense for the production of income” or as “compensation for personal services actually rendered.” The purported deduction relies on a misinterpretation of the Internal Revenue Code and has no actual legal basis.

6. *“No Gain” Deduction.* Under this scheme, the taxpayer is told to claim an itemized deduction on Schedule A that eliminates his or her entire adjusted gross income. The deduction is labeled as an “Other Miscellaneous Deduction” and a statement attached to the return refers to court documents and includes the words “No Gain Realized.” There is no legal basis for the claimed deduction.

7. *“Corporation Sole” Arrangement.* The taxpayer is told to form a corporation and then claim to be a “bishop” or “overseer” of a one-person religious organization or society. Promoters say this allows the individual to be exempt from federal income taxes under the rules applicable to nonprofit religious organizations. This is generally untrue.

8. *Identity Theft.* Be very careful when disclosing personal information such as your Social Security number, birth date, bank account numbers, and so forth. Identity thieves can use ill-gotten personal data to access financial accounts, run up credit card charges, and pocket cash from taking out loans in your name. According to the IRS, some identity theft plots involve tax angles. In one case, fraudsters sent bank customers fictitious correspondence and IRS forms to trick them into disclosing personal financial data. Sometimes scammers pose as IRS representatives to gain personal data from citizens they contact. In 2004, the IRS shut down one scheme where perpetrators sent email messages to unsuspecting taxpayers telling them they were under audit and that they could set matters right by divulging sensitive financial information. In fact, the IRS does not contact taxpayers by email. If you have any doubts about whether a purported IRS contact is the real deal, call (800) 829-1040.

9. *Schemes Involving Charities.* The IRS has detected an increase in the use of tax-exempt charitable organizations to improperly shield income and assets from taxation. This can occur, for example, when a taxpayer purports to move assets or income to a tax-exempt supporting organization or donor-advised fund but maintains effective control over the assets or income, thereby obtaining a tax deduction without making a proper transfer of ownership to the charity. Other schemes may involve intentionally overstated values for assets donated to charities.

Jon’s Advice

Be very careful about emails that request any type of personal information such as account numbers, dates of birth, credit card info, etc. We have had several clients fall victim to these schemes and, needless to say, it has been challenging to clean-up some of the financial damage caused by these crooks. Banks, eBay, investment brokers, etc. will never solicit personal information via email.

10. *Offshore Plots.* Despite a crackdown by IRS and state taxing agencies, some individuals continue trying to avoid U.S. taxes by illegally hiding income and assets in offshore bank and brokerage accounts. These bogus arrangements often include setting up ways to bring offshore cash home via credit cards, wire transfers, foreign trusts, employee leasing schemes, private annuities, and life insurance. U.S. tax authorities, in conjunction with some offshore agencies, continue to aggressively pursue taxpayers and promoters involved in abusive offshore transactions.

11. *All Zeroes Return.* Promoters instruct taxpayers to enter all zeros on their federal income tax returns. Needless to say, this is not proper.

12. *Employment Tax Evasion.* The IRS has seen a number of illegal schemes that instruct employers to not withhold federal income tax or federal employment taxes from employee wages. Such advice is based on incorrect interpretations of Section 861 of the Internal Revenue Code and other tax rules. These schemes have been rejected in court, and some recent cases have resulted in criminal convictions. Individuals in positions of authority with employers who fail to remit taxes withheld from wages can be held personally responsible for the unpaid taxes plus penalties and interest.

Older Scams Still Lingering and New Ones Surely on the Way

Because of declining activity, the IRS removed four scams from this year's Dirty Dozen list, including one involving bogus slavery reparation claims and another involving improper deductions for purported home-based businesses. Be warned: old scams often resurface or are repackaged with a slightly different look. Of course, brand-new scams are constantly popping up.

Conclusion: Please Call Us First

We are committed to helping you identify ways to legally reduce your current tax bills and implement long-term financial planning moves that are tax-smart. Before you sign up for anything that is promoted as a tax-saving arrangement, please call us. We can help you determine if it's a legitimate idea or a bogus scheme that will only cause problems with the IRS and other tax agencies.

Upcoming Workshops

June 20th, 11:30—1:30, June 27th, 6:30-8:00 pm, July 11th, 6:30-8:00 pm

"Developing A Wealth Plan". This workshop will be based on my new workbook entitled, *Our Wealth Plan*. This workshop is for couples who want to establish common goals and strategies for creating long-term wealth. Cost is \$35 per couple, limit six couples. Held at my office.

July 13th, 11:30-1:00 pm, "Being Church Treasurer". This workshop will focus on issues related to being the treasurer of a church, including Godly stewardship, spiritual reward and toll, qualifications, tax issues, etc. Cost is \$25 per person, limit ten. Held at my office.

July 20th, 11:30-1:00 pm, "The IRS and the Small Church". This workshop will focus on accounting and tax issues related to the small church. Covered topics will include ministerial compensation, necessary documentation, designated tithes, church financial statements, etc. Cost is \$25 per person, limit ten. Held at my office.

Time For Mid-year Tax Planning

We will begin mid-year tax planning in mid-July. If you had a tax surprise or want to know your current tax position, July is a great time to get together and see where you're at. We will take your income and deductions through June 30th, extrapolate the first half of the year over the entire year and see if you've paid in enough federal tax.

I believe successful tax planning results in payment or refund of less than \$500. True, some people want to get a larger refund at the end of the year, but why let Uncle Sam have an interest free loan? You have to be as proactive about taxes as you do investments.

July is also a good mid-year point to conduct an investment review. Are your investments meeting your target objectives? Are they properly allocated to minimize risk? Are you meeting or exceeding market benchmarks? These are questions we will answer during your investment review.

Input Needed for New Book

I have started working on a new book especially for children called "A Thousand Things I Want My Kids To Know." Some of the information I think kids should know includes:

What is the speed of light?

What does p.s. stand for at the end of a letter?

What does R.S.V.P stand for?

How much does a gallon weigh?

I'm looking for useful information (not just trivia) that kids need to know before getting to high school. My target audience is middle school children. Please feel free to email me at jjagues@bellsouth.net if you have suggestions. I will give you great for your contribution.

Tax Season Update

As you know, there has been five major pieces of tax legislation since George W. became president. I'm confident more changes are coming, making tax planning (and compliance) increasing difficult. Most of you are currently on my email update list for any major changes or updates in the tax code. I will update you as soon as these changes become law.

Speaking of taxes and tax season, I appreciate the more than forty referrals you sent to our office. We appreciate your confidence in making a recommendation about us. We try to treat our clients with the same level of service we would expect. We know you have a choice in professional service providers and we appreciate you choosing us. Let us know how we can help.

Passive Income Streams for Retirement

The following types of investments are example of passive income streams for retirement. Passive income is simply income generated without you getting out of the bed in the morning. It is paid to you without actively having to manage or earn it.

The chart on the following page shows how these investments fit into an overall retirement investment strategy. I recommend a total of ten to twelve income streams prior to retirement. For additional information on developing a written wealth strategy, call our office for a copy of our new workbook, [Our Wealth Plan](#). This step-by-step guide will help develop and implement your plan.

Retirement Accounts (Tax Deferred)

1. IRA
2. SEP
3. 401K
4. 403B
5. Roth-IRA
6. Annuity

Investments (Non-Tax Deferred)

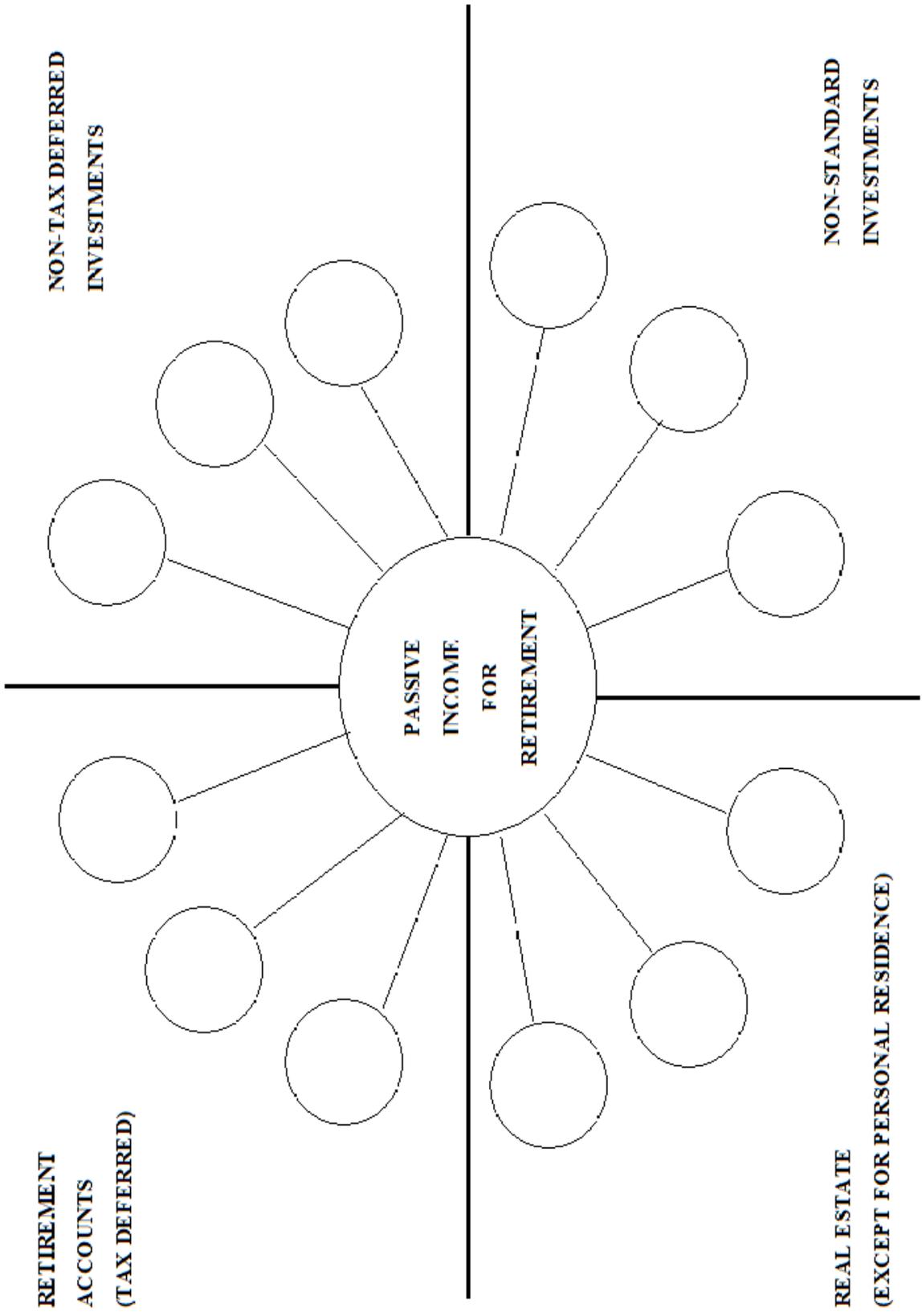
1. Mutual Funds
2. Individual Stocks
3. Municipal Bonds
4. Corporate Bonds
5. Savings Bonds
6. Bank Accounts
7. Certificates of Deposit
8. Real Investment Trusts

Real Estate (Except Personal Residence)

1. Commercial Rental Property
2. Residential Rental Property
3. Property Held in Partnerships
4. Investments in Raw Land

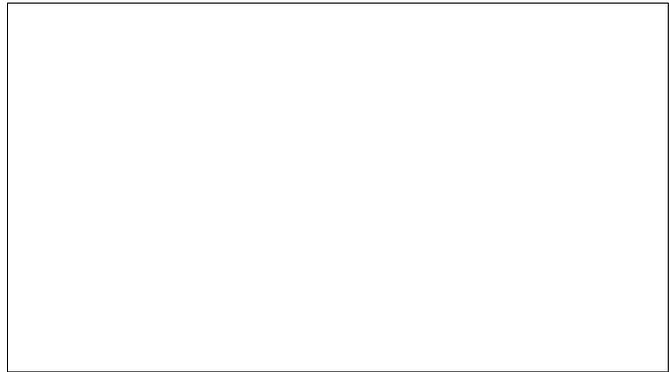
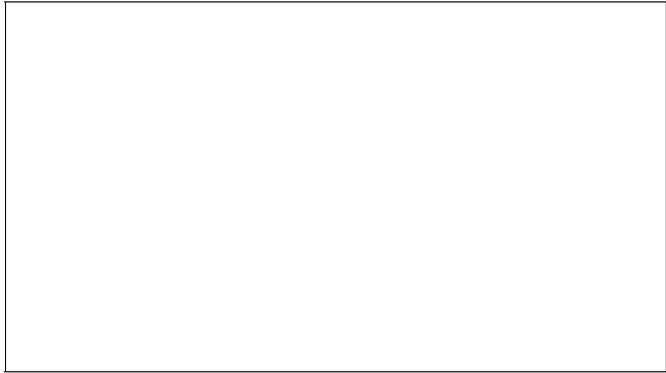
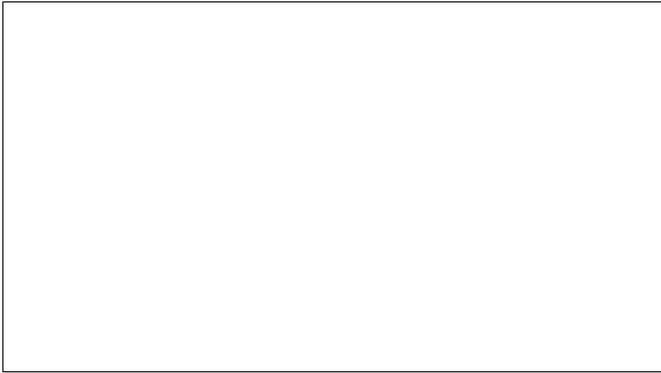
Non-Standard Investments

1. Seller-Financed Mortgages
2. Partnership Interests
3. Business Interests



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Our Trusted Clients and Referrals You Should Call First



Ideal Invitations

*Letterhead, Business Cards, Wedding Invitations, Printing and Ad Specialties at below wholesale pricing just for clients of Jon Jaques, CPA (because it's owned by my wife, Karen)
(615) 890-2286*

Your card could have been here!

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*Excellence, with
personality*

If there's no wind, row

***We are on the web
at www.jdjcpa.org***

***Jon D. Jaques, CPA
has been serving
businesses and indi-
viduals in Ruther-
ford County for over
fourteen years. We
have been fortunate
enough to grow
solely by the won-
derful referrals of
our great clients.
Thank you!***

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My thoughts on the economy.....

Changes are coming! The days of cheap money are quickly coming to an end. Interest rates will continue to rise over the near-term until we are back to more traditional rates. Don't be surprised to see the 30-year mortgage go back to the 7-8% range over the next two years.

Gas prices are going to continue to stay at elevated levels and probably move higher. The demand being generated by the 'beast in the east' (China) is accelerating and outstripping supply. It is improbable to see Chinese demand of petroleum decreasing in this decade.

The transition of jobs off-shore will continue to put pricing pressure on wages. Increases in hourly wages and salaries will continue to

slow as companies try to compete in the global marketplace. Most cuts will come in the form of reduction or elimination of health and retirement benefits.

Record budget deficits by the federal government will force changes in all government programs and in the current tax structure. We have added \$2.3 trillion to the national debt since George W. Bush has been president. Debt becomes heavy for any family, business or government; nobody has ever survived continued deficit spending.

The mantra for the rest of this decade is change. Plan for it! Expect the unexpected. And don't think the housing bubble can't burst.... Boom!!!!