



## Welcome to Tax News

In addition to providing tax preparation and personal financial planning services to our clients we will be preparing a weekly newsletter of relevant information that will strive to help you achieve your financial goals and lower your taxes.

In each weeks newsletter you will find:

- ◇ A calendar of upcoming tax deadlines
- ◇ A web site of the week that is relevant to business or taxes
- ◇ A question of the week that will be appropriate to most taxpayers situations
- ◇ Tax tips that will help reduce your taxes
- ◇ Plus much more

*Enjoy the read and profit from the experience of Tax News*

## In Today's Issue

### Does Uncle Sam Get Anything From eBay?

With more and more people turning to online businesses, or are trying to make money through selling products on internets such as eBay, debate has risen over whether or not the profit made should be reported to the IRS...

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## Does Uncle Sam Get Anything From eBay?

With more and more people turning to online businesses, or are trying to make money through selling products on internets such as eBay, debate has risen over whether or not the profit made should be reported to the IRS.

More than 135 million people have registered to use the auction site that calls itself "the world's online marketplace," with customers buying more than \$34 billion worth of merchandise last year.

Some people make money by cleaning out item from their closet, while others are using the site to run small businesses.

In the current tax law, there is no clear line that separates fun from profit, or a hobby from a business.

The IRS instructions do make it clear that all income, a category that includes bribes, gambling winnings, kickbacks and money made in illegal activities can be taxed.

However, working on the internet can be a bit of a gray issue when it comes to tax, as now specific guidelines have yet been set but the IRS can apply a list of nine indicators to prove whether someone's online auctions amount to a business.

These indicators include evidence that the taxpayer depends on the income, acts in a businesslike manner, or puts enough time and effort into the activity to suggest a profit motive.

Meanwhile, it still apparently comes down to the intent of the seller which could determine whether eBay auctions are a hobby or a business.

If someone is selling the junk that is collecting in a basement or garage, then they probably will get less than what they pay for, so therefore no profit is made.

But if someone is buying goods in bulk from a warehouse or wholesaler and hoping to make a few dollars on top, then that person could be deemed as having started a profitable business.

According to eBay officials the company does not report individual sales to the tax authorities but the site does urge users to learn about tax issues.

A recent survey of eBay users discovered that 430,000 of its U.S sellers make a significant portion or all of their revenue from auctions on eBay.

It may sound like more of a hassle than anything else, to have to claim a small profit from the online auction however consider the opportunities, you could deduct business expenses if the qualifications are met.

Since there is no definitive law set for such a thing, people are encouraged to consult a tax professional or contact their local IRS office and found out as much information as possible on this topic



## Dates For The Diary

### April 15

- Personal Income Taxes Due. (Form 1040)
- Partnership Tax Returns Due. (Form 1065)
- Trust Tax Returns Due. (Form 1041)
- First estimated payment for 2005 due.

## Tax News

### You Can't Avoid Paying Uncle Sam

Its tax time again and every year many people try and avoid paying the required taxes.

One of the most common "frivolous tax arguments" is the assertion that filing a tax return is only voluntary.

One IRS official suggested that voluntary filing was similar to the voluntary action of braking at a stop sign, that you can choose not to but the authorities will step in and punish you.

There have even been books written on how to avoid paying income tax, however the courts have heard every excuse on the books and have consistently ruled that taxpayers must file tax returns.

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## Tax Tidbits

- ◇ If your employer has a cafeteria or flexible spending plan that allows you to pay medical expenses with pre-tax dollars, it generally is beneficial for you to use the plan rather than pay expenses with after-tax dollars. Under a flexible benefits plan, you set aside a portion of your salary to pay for medical expenses. The amount you set aside is not subject to income tax or employment taxes.
- ◇ Most states have deductions or credits available to homeowners and/or renters who are senior citizens or who have income that is below a certain level. It is wise to check your state's web site to see if you qualify for the tax break.
- ◇ If your current income isn't quite funding your early retirement, IRA regulations allow you to take penalty-free distributions based on your life expectancy. If you do this, you must continue the payments for at least five years and until you are at least 60 years old. For more information, contact a qualified advisor.

## More Tax News...

### Former Bank Workers Charged With Lockbox Fraud

Six Mellon Bank workers are facing up to 20 years in prison and \$750,000 in potential fines from fraud, theft and mail tampering charges stemming from the destruction of 80,000 taxpayer returns in 2001.

U.S Attorney Mary Beth Buchanan handed down the three-count indictments against the former IRS lockbox employees nearly four years after it was revealed that workers at Mellon's Pittsburgh facility had deliberately hidden and destroyed important tax records so as to claim performance bonuses and avoid IRS penalties.

The Mellon Bank lockbox, one of several private processing centers used by the IRS during the late 1990s, had been given the task of processing last-minute returns and payments received from April 17, 2001 until April 29, 2001 and was supposed to forward the information on to the IRS service center in Massachusetts by the April 29 deadline.

According to the March 22 indictment, ex-Mellon workers David Bryant, Dean Turner, Wesley Thomas, David Stephen, Stephen Donaldson, and Denise Philpott, were all charged with conspiracy to defraud the government.

Philpott and Bryant face additional charges of theft of government property and Bryant a third charge of mail theft.



## What's On Offer

At Taxlogic, the accountants are all professionals with over 25 years experience in the taxation industry with an extensive knowledge and focus on electronic filing.

By using the team at Taxlogic to prepare and file your tax returns, not only will you be given excellent service, but you will also be treated like a person not just a number.

From any computer, anywhere in the world, 24 hours a day, seven days a week Taxlogic can help you with your tax preparation.

As well as the ability to prepare personal tax returns the team at Taxlogic also are very knowledgeable with corporate/business returns for the current or previous years.

The team also provide services to help with company formations, annual minutes for corporations and payroll preparation.

Bookkeeping courses and weekly newsletters are provided by Taxlogic to help keep you informed on the latest and greatest of all things tax orientated.

Help can also be given when preparing your employee handbooks

For all things tax related, look no further than the team at Taxlogic.

## Strange But True

### The Richest Tax Cheats

While the rich could easily make the required tax payments, many tend to favor the sort of technical tax shelters-like Son of Boss-that might incur monetary penalties but won't bring time in the pen.

However there are some people who believe they are even "above" using tax shelters, here are some of the 'not-so-little' people charged with criminal tax evasion.

Walter Anderson, 51, Washington D.C. telecom entrepreneur was indicted in February for using offshore entities to evade \$200 million in tax. The IRS is calling it the largest individual criminal tax case ever.

Leona Helmsley, 84, New York hotel operator, worth an estimated \$2.2 billion, served 18 months for deducting personal expenses as business expenses. During her 1989 trial a housekeeper quoted her as saying "We don't pay taxes. Only the little people pay taxes."

Marc Rich, 70 and Pincus Green, 69. Estimated net worth of \$1.1 billion each. Their commodities and oil trading company, Marc Rich & Co, pleaded guilty in 1984 to income tax evasion and paid \$200 million. Both fled to Switzerland to avoid prosecution and were then pardoned by President Clinton in 2001.

Leandro P. Rizzuto, 67 Founder of Conair Corp, with an estimated net worth of \$900 million is now on probation after pleading guilty to tax fraud in 2002 and getting 37 months. Reportedly deposited millions in kickbacks from suppliers into foreign bank accounts.

Victor Posner Corporate raider, who died in 2002 at 83, was accused of claiming inflated charitable deductions. After his first conviction was overturned, he pleaded no contest in 1987 to tax evasion. He was sentenced to community

## News From The IRS

### IRS Collects \$3.2 Billion from Son of Boss

The Internal Revenue Service announced last week that taxpayers participating in the Son of Boss tax shelter settlement have so far paid in more than \$3.2 billion.

According to the IRS the Son of Boss was an abusive transaction aggressively marketed in the late 1990s and 2000 primarily to wealthy individuals.

The settlement initiative required taxpayers to concede 100 percent of the claimed tax losses and pay a penalty of either 10 percent or 20 percent unless they previously disclosed the transactions to the IRS.

So far, \$3.2 billion in taxes, interest and penalties have been collected from the 1,165 taxpayers who are participating in the settlement initiative.

The typical taxpayer payment was almost \$1 million, with 18 taxpayers paying more than \$20 million each and one paying over \$100 million.

Participants not taking part in the settlement initiative have or will shortly receive a deficiency notice from the IRS disallowing all claimed tax losses and transaction costs.

The Son of Boss initiative is part of a broader enforcement effort at the IRS, including eradicating abusive tax shelter deals and cracking down on those people who promoted them.