

# Answering some questions about taxes

BY JEFFREY WHITTAKER

Contributing Columnist



WHITTAKER

Another April 15 has come and gone. Most of you have filed your individual tax returns and either paid your liability or received your refund. For those of you on extension to October 15 or looking forward to April 15 2010, I offer some survival tips based upon my 20 years as a CPA. When I meet a new potential client or address a group, the most frequent question I receive is for my top recommendation to avoid contact from the IRS. I have found that the most common taxpayer mistake is failure to include income reported to the IRS. In most cases it involves interest or dividend income or proceeds from investment sales reported by financial institutions on Form 1099. The IRS receives this information electronically and WILL match the information to your individual return and WILL quickly send you a letter requiring explanation of any unreported items.

Another very common question, particularly from "experienced" taxpayers, is how long they must retain their filed tax forms and supporting information. My response is more conservative than you may find in other sources and is based on conversations with the IRS. I prefer clients retain the current tax filing and six (6) prior tax periods. Particularly, if during that time period, they reported income and expense from a small business on Schedule C. Taxpayers need to be prepared to defend a claim of potential fraud or disallowance of business expenses the IRS may seek to disallow as hobby losses. However, if you have decades of returns, I suggest you ensure you retain any details to establish the



basis or cost of your investments but then discard other documents by shredding them to prevent identity theft.

Next I will share with you one piece of inside information. When I view the return of a potential new client, who had previously prepared their own 1040, I always look for what I have found to be the most frequently missed tax deduction, State General Sales Tax. This deduction is reported on line 5 of Schedule A. Most individual tax software sold to self preparers is produced for a nationwide audience. Most taxpayers in this country pay and deduct State INCOME Tax. Thus residents of Texas first have to know they are entitled to this deduction and then find a way to force the software to properly calculate and allow this item. Don't forget to include any additional amounts your local government adds to the State Mandated 6.25%. This leads to another popular question, if I made an error on my return and overpaid tax, how do I get my money back? The answer is to file an Amended Return on Form 1040X. This form is only two pages long and presents the original tax information and your corrected data in summary detail, which your tax software should help you create. But, you must realize you made this error quickly,

as the Form must be filed by the later of 3 years from when you filed the original return, or two years from when you paid the tax due. And unfortunately this Form does not lend itself to EFILE or Direct Deposit, so I tell clients that it will take six months to receive any potential refund from the date they mail the request.

Finally my best piece of guidance; spend enough time reviewing your completed individual tax return, even if you retained a paid preparer. By taking the time prior to submission to check the spelling of names, correct disclosure of social security numbers, and proper inclusion of all W-2s and 1099s, you may spend an extra 30 minutes now, but save hours in the future making corrections and responding to the IRS. Always remember it is your name on the return and you are ultimately responsible for its accuracy.

*R. Jeffrey Whittaker is a Certified Public Accountant with a practice in Flower Mound. This article was not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.*

## Atlas Shrugs: PART II

BY CHUCK ELSEY

Contributing Columnist



ELSEY

As I wrote at the end of part one last week, "Atlas Shrugged" is a novel that fearlessly explores the plight of the great industrialists of its time, as the world around them becomes depressingly indifferent as to its own productivity, giving way to the "intellectual" philosophy that man exists for the benefit of other men. As the productivity of the "looters," those who set out to gain at the expense of those who have earned, continues to falter, the government, sensing the "group thought" that the only good was that which serves the "common good" of society, embark on a dazzling legislative orgy intended to create fair business practices (read transfer wealth from the "Makers" to the "Takers") to support those who have failed on their own. Wealth is redistributed through new taxes and laws, government is "forced" to create agencies to "oversee" the management of the "Makers" and provide "bailout" scenarios for failing businesses and all manner of goods are distributed across the country according to the whims of the government.

Many of the results are predictable. Some are not. Consider this, what if every significant producer and transporter in the United States decided to close its doors and completely shut down its business? No railroad, no airline, no manufacturing and no refineries, except those that are on life support from the government, using money "on loan" from the "Makers," who no longer existed to fund the bailouts. In other words, all the successful companies decide to go on

strike, just walk away because of government interference with the right and measure of how much they will be allowed to succeed. Welcome to the world of "Atlas Shrugged;" Ms. Rand's 50 year old harbinger of a collectivist mind-set where the government rewards the unproductive with the spoils produced by the productive, ultimately pushing the "Makers" into oblivion.

In this sordid tale, corporate survival is more about who one knows and what kind of stick one carries in Washington, than one's business acumen and productive output. (Hello auto industry [not you Ford], welcome banking industry.) Obama has hung out the governmental sign saying, "we're open for business" and his stimulus measures and corporate bailout programs have companies of all kinds, with or without need, standing in line with their hands out. Such programs are "fools gold." Real wealth and real productive growth founded in government largesse is not sustainable. At some point the money runs out, taxes rise to cover the costs and the government devises programs aimed at the very beneficiaries of their generosity to get its money back. Common sense dictates that programs funded with "phantom" money must come at a significant cost to the future, including the cost of future innovation which will be slowed by the lack of available funding because those future dollars were spent yesterday.

This is how it all began in the creative mind of Ayn Rand. The unspeakable being the potentially devastating impact that such governmental largesse (the largest in our history) will have on those healthy "Makers." In the book, the great industrialists simply said goodbye,

hanging out their "closed for business" signs and letting the economy fall inwards on itself until the country is unrecognizable. I would hope that our current business moguls possess a bit more human compassion than those born to the mind of Ms. Rand in her book. No reasonable person would suggest that the intentional abandonment of society by men and women with the capacity to save it, is a noble endeavor. Conversely, when one reads of the inane struggles of these industry giants against the lunacy of the "common wisdom," fully supported by the government, one will feel their frustration.

In no way is this article intended to suggest that society in general and the most fortunate in particular should assume no responsibility for the welfare of its people (my more conservative friends just audibly groaned). History is littered with failed societies where the balance of wealth was so one-sided that the have-nots, unrepresented and unsupported, rebelled against the moneyed establishment. But how much is enough? We have an obligation to care for those who truly cannot care for themselves. But, what if the man, capable of at least some modicum of productivity, refuses all opportunity and chooses to demand that he be kept by those willing to attempt to achieve? What is society's obligation to that man? How about corporations that are slain by their own hands? What obligation is there for the Atlases of the world to continue to produce to support their failures? And, if the burden becomes too great for the "Makers" what if Atlas simply shrugs?

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# EDITORIAL

## House bill reviews appraisal procedures

The Texas Legislature, in House Bill 8, gave Texas Comptroller Susan Combs the responsibility of reviewing the performance of each county appraisal district at least once every other year. In the off years, the Comptroller's office will conduct a property value study to determine the taxable value in each school district. The new law goes into effect Jan. 1, 2010. Ms. Combs said in a statement that her office will be looking carefully into the work performed by appraisal districts in order to exact the most efficient service and uniform appraisals that will result in fairness for all taxpayers. The review structure will cover each appraisal district's governance, taxpayer assistance, operating and appraisal standards, procedures and methods. If an appraisal district fails to comply with the Comptroller's recommendations within one year, the Board of Tax Professional Examiners or a successor agency must take action necessary to ensure compliance.

HB 8 also changed the Comptroller's school district Property Value Study from an annual study to a study that must be conducted once every two years, except when the study finds invalid values for a school district, at which time a study will be conducted annually until the values are valid. The requirement for a biennial, rather than an annual, study will free up Comptroller resources to do a more intensive Property Value Study in approximately half the school districts each year. The bill created a nine-member Comptroller's Property Value Study Advisory Committee to consult with the Comptroller prior to the adoption of study rules. The Speaker of the Texas House of Representatives will appoint one member from the House; the Lieutenant Governor will appoint one member from the Senate; and the Comptroller will appoint two members representing appraisal districts, two members representing school districts and three members who are Texas taxpayers or have expertise in school district taxation or ratio studies. Let's hope the appointed members are truly dedicated to equitable taxation and not merely political hacks with the status quo in mind.

## Listen to the doctor!

Many patients visiting hospitals and clinics for health care services have no idea what they will pay. This lack of transparency and up-front price listings causes confusion and discourages patients from receiving the critical care they need. Restaurants have menus displaying the prices of the products they offer, why should hospitals providing health care services be any different? A patient should be able to know what they are paying for and how much they will pay out-of-pocket. Congressman Michael Burgess has introduced HR 2249, the Health Care Price Transparency Promotion Act of 2009, which aims to make health care more affordable by promoting greater transparency about the costs of health care services for patients seeking care. The bill is supported by the American Hospital Association, and is an important step in improving our country's health care system by focusing on patients, giving them more choices and more control over their health care decisions by providing up-front information on cost.

Before Burgess was elected to Congress in 2002, he was a practicing physician in North Texas for more than 25 years. When considering ideas about real health care reform for America, why not take advice from a doctor with a stellar reputation in the field of medicine, and an already impressive record as a lawmaker in Congress? Dr. Burgess has stated many times that genuine health care reform should be about empowering patients and letting them "own" their health care and medical choices. The doctor is spot on! More transparency in our health care costs is a significant step toward achieving that goal, and is should be a part of the national debate on health care. There are many horror stories of patients being shocked when they looked at the medical bills for some of the most routine visits. It's unconscionable to charge people huge sums for their medical services unless the cost was explained to them before treatment. Failure to do so only diminishes the perception of a very noble profession.

## Are strings attached to campaign donations?

Last week, Governor Rick Perry's re-election campaign boasted that he had collected \$4.2 million in contributions in just nine days. Perry's campaign issued the numbers a week earlier than necessary inasmuch as their contribution report to the Texas Ethics Commission wasn't due until this week. The report will show that the governor has \$9.3 million in the treasury to use in his fight against Senator Kay Bailey Hutchison in the GOP primary battle next March. This is being viewed by his team as an endorsement of Perry, given that his fundraising efforts during the first half of the year was restricted by law because he could not accept donations while legislative business was in progress. Of course, most of the praise is coming from his campaign finance director. One example of his money-raising prowess during the nine days is that it computes to \$324 per minute. Anyone care to break it down to seconds?

Meanwhile, his soon-to-be, but not quite ready to announce yet, opponent has been busy accumulating her own mountain of cash to take on the only state chief executive we've had since George Bush traded the governor's mansion for the White House. The first female United States Senator from the Lone Star State is a few million dollars ahead with about \$12.5 mil in the bank. We can expect to be updated at least weekly as the totals compete on the greenbacks scoreboard. It often seems as though we're watching a Jerry Lewis Telethon with the numbers spinning like those in the window of a slot machine. Sadly, we have come to expect this during the run-up to an election because, as we are constantly told, you need a lot of money to mount an effective campaign. With a king's ransom being paid to obtain the office, one wonders if the king (or queen) is returned with no strings attached.

## Letters

### Questions, Comments, Concerns?

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