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"Suppose your child is sixty pounds overweight from years of over-eating, lack of exercise and general indulgence. And further suppose that you put him on a strict diet to control and monitor his intake of food so that he could lose the sixty pounds. Does this mean that you are trying to destroy your child? No. It means the very opposite: That you love your child and you want to save him. The federal bureaucracy is obese and, like the fat child, it needs to go on a diet. Those who refuse to put it on a diet are guilty of child neglect."
— Tax Attorney and CPA Peter Pappas, blog.pappastax.com

Tax and Financial Strategies

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WEALTH CREATION STRATEGIES

Warren Supports Obama's "Buffet Rule" Leaving His Dad, Howard Buffet, to Roll in His Grave

Whether Smoking, Production or Job Creation: Tax It and You'll Get Less

Congressman Howard Buffet gave a speech, reprinted in *The Freeman* in December 1956, which run counter to statements recently made by his son, Warren Buffet, the mega-billionaire CEO of Berkshire Hathaway. Paraphrasing, the senior Mr. Buffet said:

> "That last 40 years have seen a gigantic expansion of political power by the federal government. This change is linked to the passage of the income tax law in 1913. This law gave the government new powers over the individual [which] has curtailed the ability of the individual to achieve economic independence.
>
> "The transfer of economic power into political hands takes many forms. In 1932 about 2.5 million people received a check from the government every month. Today about 20 million receive a government check every month. If the government is to guarantee security, then the government must take control over your activities. If politicians are to supply your security, they must control your work, your spending, and your saving. You have traded liberty for security."

Little has occurred in the 55 years since to reverse the gradual but inexorable loss of individual, personal and especially economic freedoms and much has happened to increase the power of government. In calling for increased taxes on the "wealthy," Howard Buffet's son Warren Buffet is saying he thinks government power should be expanded even further. Congressman Buffet must be rolling over in his grave.

If Warren thinks government is a better steward of his money than he is why doesn't he write a check to the federal government (which he can do at this web site www.pay.gov/paygov/forms/formInstance.html?agencyFormId=23779454)? Since he hasn't done this, we can infer he thinks he's better than government at allocating his wealth while he's alive. Not to worry: much of his estate will go to the government when he and his wife die (they're *way* over the $5 million per person threshold at which estate tax is paid at a 45% rate). But wait! It appears he's leaving everything to charity, in which case the government will get nothing. His actions suggest he sees himself as a more efficient allocator of his wealth than government while he is alive and, furthermore, that he thinks his favorite charities will be a better steward of his money after he is gone.

I'd say this is hypocritical, but that wouldn't do the word justice.

When asked in a 2007 CNBC interview why he intended to donate his vast fortune (largely consisting of unrealized capital gains on which tax has never been paid) to the Gates Foundation and other charities, Buffet explained:

> "I think that on balance the Gates Foundation, my daughter's foundation, [and] my two sons' foundations will do a better job with lower administrative costs and better selection of beneficiaries than the government."

Apparently, in calling for higher taxes on the "wealthy" *he* must think while he can make better decisions than the government, he doesn't think the rest of us are as capable of doing so.

How flipping arrogant.

Numerous critiques of Warren's comments have appeared. The "wealthy" already pay far more than their "fair share" as a percentage of total income. Confiscatory taxes could be assessed on the "rich" (meaning: incredibly productive people to whom we should show gratitude for having increased the standards of living of all of us—thank you Bill Gates and Steve Jobs, among many) and the federal budget deficit would barely be dented (even if government took everything they earned). Incentives to produce more income would be decimated and taxable income would decline, as has occurred with every other tax increase in history. Among seemingly countless statistics:

- Adjusted for inflation, the top .1% of income earners paid 33% more in federal income taxes in 2008 than in 2001, when maximum tax rates were 13% higher (and tax rates on dividends were over two and a half times higher).
- The wealthy earn more in dividends, which are subject to a 15% nominal maximum federal rate. This is on top of the 35% federal tax the corporations paying those dividends have already paid. This combined corporate-dividend tax rate is the fourth highest in the industrialized world. (No wonder so many businesses and investors are heading overseas.)
- If the maximum tax is increased to a more confiscatory 50% on all those with million-dollar incomes the deficit would be reduced by less than 1%.*
- Oh, and did I mention the fact that the "wealthy" would find ways of earning less by sheltering more (or, at some point, simply pulling a John Galt) and that, therefore, the reduction in the federal deficit would be even less? Evidence for this can be gleaned from many statistics, but one is a stand-out:

  When the top marginal income tax rate was 70% in 1980, the same "rich" who today pay 40% of all income taxes (with a top rate of 35%) paid just 20% of all income taxes.

  Therefore, the "rich" pay twice the total tax now with maximum tax rates half what they were in 1980.
- Those who are in the crosshairs of Warren's and Obama's "soak-the-rich" schemes are most often "HENRYs"—High Earners, Not Rich Yet,** who comprise those earning $200,000 to $1 million, with the vast majority at the lower end of the range. In 2009, they comprised about 3% of the population and paid 50% of total income taxes. Soak them more? In response to those who object "but they earned 50% of the income," no, they didn't. They earned only 25% of total income. These are people living the American dream, trying to become rich (for which accumulated assets are a much better measure than income).
- The bottom 50% of income earners paid almost no income taxes, with 80% of those (42% overall) paying zero towards the basic cost of federal government while getting all of the (purported) benefits, including not only national defense but also "social aid" programs. To paraphrase de Tocqueville, when the citizenry figures out it can vote for largesse from the public treasury, democracy and freedom will collapse.
- Less than 20% of federal spending involved "transfer" payments (such as Welfare, Social Security and Medicare) to individuals until the mid 1960s. By the early 1990s they hit 50% and are now nearing 65%, largely due to a tripling in Social Security, Medicare and Medicaid spending since the early 1990s (adjusted for inflation). This spending is unsustainable, not to mention inappropriate in a society in which "free" originally meant "freedom of opportunity" (and not "free of responsibility"), and dangerous in terms of its potential for creating social strife. As John Merline (opinion editor at *AOL.com*) put it, "The federal government has…turned into a gigantic wealth-transfer machine…[which will] make getting the federal budget under control increasingly difficult, since it will invariably involve pitting those writing checks against those cashing them." Think of the recent London riots, which are partly the result of resentment by those who have been given tax dollars against those who paid those taxes and because those who are on the receiving end refuse to accept the idea they might be given a little bit less (of other people's money) going forward. (Add alcoholism into the mix and you get combustion, discussed in my September 2011 www.addictionreport.com).

But nearly everyone has missed three much more important issues:

Who is the better steward of money—the individual or the state?

Private savings and investing are the most important contributor to higher living standards for all. To paraphrase Ludwig von Mises, "Why does the American truck driver out-earn the Chinese Cooley by a thousand times? Because he out-produces him by a thousand times, and employers in free societies compete for quality workers by paying, in the aggregate, much of the incremental earnings from that increased production to employees." Without savings the all-important "truck" could never be built. The greedy hands of government simply transfer previously-created wealth, serving only to decrease savings and investment and, hence, "trucks." This lowers overall long-term living standards below what they would be absent such transfers. Even if "invested" by government, long-term living standards are increased to a far lesser degree than if privately invested because government, which is never subject to market constraints, is *always* a lousy and wasteful investor (as proven beyond doubt in the former Soviet bloc and formerly totalitarian socialist China and most recently, with the bankruptcy of the government-subsidized solar firm Solyndra).

In addition:

Who am I to tell you how to spend and invest your rightful earnings?

It would be arrogant of me to suggest I know better how to run your life and spend your money than you do. You are the better steward of your earnings than anyone else, which includes politicians and government bureaucrats—and if you're not, who am I to decide this and deny you the wonderful opportunity to learn from your mistakes? Unless wealth is inherited or stolen, the "wealthy" get that way because they don't frivolously spend their money, they work hard and then save and invest their rightful (and moral) earnings.

The way to fix the deficit is not to impose higher tax rates on the "rich." All that will do is reduce growth to Western European rates or worse. Western Europe has a standard of living roughly 70% of ours (although increasing statism in the U.S. is forcing a quick drop to their levels). U.S. Federal spending, which has averaged 18-20% of GDP for much of the last hundred years, has increased to nearly 25% in the last few years (not due to increases

in defense spending, which has *declined* from 55% of total federal government spending in 1960 to less than 25% today). Spending must be dramatically reduced and growth—which requires that governments stay off our backs—must be dramatically increased. Creating incentives to spend more carefully where price increases have vastly exceeded overall price inflation, in particular health care and education, must be implemented—which means reducing third party payments from all sources and ensuring that people have more skin in the game. Finally, maximum tax rates should be lowered, which will go far to increase productivity, helping us to outgrow the deficit.

And finally:

Is it moral to demand more involuntary transfers from the "rich" to the "poor"?

Many people, even successful entrepreneurs, believe they must "give back" to society. As Kimberly O. Dennis, CEO of the Searle Freedom Trust, wrote in a *Wall Street Journal* op-ed piece, "'giving back' implies they have taken something. What, exactly, have they taken?....They haven't taken from society, but rather enriched us in ways that were previously unimaginable." Whether it's voluntary or involuntary, they are under no moral obligation to me or anyone else. Not only do they owe us nothing; we owe them our gratitude for having helped create the extraordinary innovations we use every day that were unimaginable 100, 50 and even 25 years ago. Are you listening Bill Gates and Warren Buffet?

* The 8,274 taxpayers reporting income above $10 million in 2009 paid 1.4% of the federal budget in taxes (the federal budget deficit was 40%). The 237,000 taxpayers reporting income above $1 million funded 5% of the total budget, which amounted to only 12% of 2009's budget deficit ($1.4 trillion out of a $3.5 trillion budget). The average federal tax rate of those earning over $1 million was nearly 30%.

** Shawn Tully coined the term in a *Fortune* magazine story in 2003 on the Alternative Minimum Tax which is, as he put it, "the bane of the HENRY's."

Record Keeping for the IRS: An Increase in the Number of Audits; Adopt Good Habits Now and Avoid a Migraine Later

We've recently experienced a marked increase in IRS audits. Most have been computer-generated "CP2000" letters focusing on just one or two items, such as IRA rollovers, Roth recharacterizations (undoing part or all of those conversions I've been advocating for many of you), alimony paid and what appears to be unreported income such as that from debt cancellations and state income tax refunds. In nearly every instance, we've won our case. I'll get back to these, but please stay with me for a discussion of those "other" (and thankfully fewer) audits first.

We've had several live "field" and "office" audits, which for the last several years had seemingly gone the way of the do-do bird. "Field" audits are those where an IRS agent visits our office (and sometimes yours). "Office" audits are those for which we visit an IRS agent at an IRS office. While both kinds of audits can be gruesome in terms of the scrutiny of your financial behaviors, a field audit can take many days and an office audit is typically scheduled for either two or four hours, providing an incentive for the auditor to scrutinize fewer items on a return.

Audits from the under-world

Both kinds of audits, however, can involve many pages of "requests" of documents. This can easily involve tens of hours of preparation time on the part of the otherwise unprepared taxpayer and five to ten hours of our time going over both the request and the documentation our client provides. Recently, one of each type of audit reminded us of the importance of good recordkeeping, particularly with respect to something that is often overlooked: recording deposits and differentiating *types* of income. This is useful not only for the obviously self-employed, but also for those who do occasional side work or owners of rental properties, and even the very rare employee who becomes subject to an income audit. Here's what most of just one of four pages of requests for the office audit, scheduled to last four hours, read:

- All books, journals, ledgers and work papers used in determining gross receipts
- All bank statements, cancelled checks, and deposit slips (both business and personal, savings and checking) for the 14 month period from December of the year prior to the audit year through January of the year following the audit year
- Records of all savings and invested funds for the year (savings accounts, money markets, CD's, etc.)
- Records of all business and personal loan activity proceeds and payments
- Purchase invoices or closing statements covering acquisition and disposition of capital items, business and personal. This includes real estate, automobiles, machinery and equipment
- Information on any nontaxable income received, such as Social Security benefits, gifts, inheritances, insurance proceeds and transfers between bank accounts
- Copies of state sales tax returns for review during the exam
- Any and all workpapers used in the preparation of your Schedule C. This would include worksheets, log books, notebooks, or any written documentation that shows your computation

What does this teach us? The obvious is to **retain all your account statements**. The less obvious is to print your online account statements before they disappear (or cost $3 per month to access) from the ether. Even less evident but most important is to record what each and every deposit represents, especially for those with complex business activities, multiple accounts and multiple sources of funds from income, savings and loans. Only by doing this

and making copies of all checks representing gifts, loans or reimbursements from others can you prove that deposits are not taxable income. Bear in mind deposits are deemed taxable until and unless you can prove they are not.

Shades of Edgar Allan Poe...

There were several other parts of this request that deserve our attention:

• Description and computation of the cost of inventory items withdrawn for personal use. Include gifts to family members and friends, items for personal consumption, etc. A logbook, written record, or any documentation you have that shows what you used for business and what was given as gifts or to family, friends or personal consumption (sic). We need to see how you separated what was used for business and what was used for personal consumption.

It may not be apparent, but this applies to businesses selling items that can be used personally even if there is no carried "inventory" at year-end. This includes landscapers, contractors and those who sell herbal supplements.

• Copies of cancelled checks, receipts and statements to show who was paid and the amount paid for supplies. If the payment was made to a company that sells a variety of items, then a receipt will be needed to show exactly what was purchased and the cost of the item(s).

• If various items and/or supplies were purchased together, please provide an itemized list and be prepared to verify each item on the list with back-up documentation. For example, a detailed receipt, invoice, statement, etc.

Consider Costco, Wal-Mart or any of a number of stores that carry a huge assortment of items that can be used both personally and for business (for that matter, even Office Depot and Staples!). How can you prove the items purchased were for business? Only by having that detailed receipt and, if not obviously business-related, notes on the receipt. This may be true even for those having a combined business and personal warehouse club membership in which different cards are used. Still, I always advocate using a business-use only card for business purchases and a personal-use only card for personal purchases and that you retain the receipts for both. If ever needed, this *helps* prove the business-use card was truly used only for business items. Just remember to separate the basket before hitting the check-stand.

Another issue involves the receipts themselves. Because they can deteriorate over time, copies, including scanned copies, may be acceptable (even if not optimal).

• Records, logbooks, etc. showing total business and personal use of depreciable assets. If the asset had any personal use, please provide written documentation of how you determined the amount of business use vs. the amount of personal use.

This includes cars, computers and items that can be used personally such as much of the equipment used by actors, stunt actors and photographers. One client discovered that his Blackberry held information for only so long and all of the information for the year under audit had been overwritten. Only with the help of his computer-geek son was he somehow able to access some of the data, and it was partly luck. Make and keep back-ups to electronic data!

There were two and a half more pages to the request, but I'm sure you get the idea that such audits, even with the best of records, are intrusive, time-consuming and almost overwhelming. With poor records they can become nightmares.

In terms of our fees, the client who received this letter, along with one other, got lucky: neither had to pay an extra dime to us because they both had our full-service prepaid audit coverage. However, I don't believe it is a mere coincidence that both returns were filed in October. This is yet more evidence for something I've been telling late-filers for years: errors and omissions are far more likely on returns filed in September and October than earlier in the year and the IRS may have figured out the later a return is filed, the greater the likelihood of such errors. Therefore, such late returns are likely audited far more frequently as a percent of those filed than others.

To give an idea of how great I believe the problem is, we will no longer offer prepaid audit coverage for corporate returns filed in September (for which the extended due date is September 15) and individual returns filed in October (for which the extended due date is October 15), even if such returns otherwise qualify for such coverage. I'm fairly certain that at least one of the recently audited returns was selected because of an omission of income reported on a 1099, which follows another October filing a few years back in which a different client also omitted income reported on a 1099 (not to ascribe blame, but I never saw either 1099 and had no reason to suspect the latter but had every reason to suspect the former, which goes to show I can goof too, especially in October).

...and Stephen King

In regards to the "easier" computer-generated audits (even if those IRS envelopes scare the living daylights out of you) the majority involves two IRA issues: indirect IRA rollovers and Roth conversions. You can avoid questions regarding IRA rollovers by simply doing direct trustee-to-trustee rollovers, whether from one IRA to another or from an employer plan (401k, 403b and the like) to another plan or IRA. With indirect rollovers, not only is the IRS not "seeing" the "other" end of the rollover (after all, you are given a check that must be re-deposited into a qualified plan or IRA within 60 days), but also there are at least two other dangers with such indirect rollovers. First, you might forget to complete the rollover within the required time-frame. One client forgot, but got lucky: due to extenuating circumstances we were able to get the IRS to waive the 60-day rollover requirement, even though the funds were rolled well over a year later (yes, we occasionally perform miracles, but please don't push your luck). Second, if you do more than one rollover in any 12-month period the second rollover is fully taxable and the funds must be withdrawn from the retirement account. That's an awful price to pay, isn't it?

Recharacterizations are yet an-

other topic of computer-generated letters. I alluded to the problem in one of last year's issues of *WCS* and have since found no reduction in the percentage of instances in which the IRS is failing to "see" the partial "undoing" of a Roth conversion. In other words, whatever you converted initially is deemed by the IRS to be taxable, even if you reversed part or all of the conversion. We've explained every "undoing" to the IRS's satisfaction, but finally got so irritated at repeatedly seeing these we added a note to one of the responses to an IRS inquiry that involved a complete reversal of a conversion*. The carefully-written note read in part:

> As an aside, Mr. Client is one of many who have received CP2000 letters similar to this regarding conversions that have been partly or completely recharacterized. The letters have erroneously assumed the conversion was fully taxable. This has caused concern among a number of elderly clients (Mr. Client, for example, is over 90 years old). If I'm reporting conversions and recharacterizations incorrectly, please let me know. [I'm not.] Form 8606 asks for any conversion amount *net* of recharacterizations and if the entire conversion was recharacterized, this form isn't even required. In order to save government resources and reduce the odds of unnecessary CP2000s being sent to fearful clients, I'd suggest the IRS require that the conversion and amount recharacterized be separately reported when applicable, rather than simply asking for a "net" figure.

If you think such a letter is a waste of time, due to a series of letters and a committee I was part of in the late 1980s many give me credit for having influenced the IRS in its decision to eliminate the requirement that a 2nd extension be requested (the old August 15 "deadline") and the state of California (now among a number of states) to shift to a paperless "automatic" extension system. You never know when a suggestion will actually create an impetus to change!

* Due to unexpected income in the year of the conversion resulting in what would have been over $2,000 in taxes and finding he could do the same conversion the following year at a zero tax rate, we had our 90+ year-old client completely reverse a $15,000 conversion.

Dear Doug: Something Came in the Mail (or via Email) that Appears Really Good or Important. Should I be Skeptical?

Dear Doug,
I received a postcard inviting me to a free dinner. The hosts claim they will help me to avoid taxes on my Social Security benefits. Should I attend?
Regards,
Hungry for a steak dinner

Dear Targeted Prey,
Clients often ask our opinion on advertising circulars and emails they have received. "Do I qualify? Should I respond? Is it right for me?" If you have to ask or even, in the dark recesses of your mind, wonder "Should I call Doug?" the answer to the question "Do I qualify?" is almost always either "Yes, but it could cost you your life savings," or simply "No." The answers to "Should I respond?" and "Is it right for me?" are usually "No" and "No." If you are at all tempted to attend the "free" dinner, the answer to the question "Should I call Doug?" is an emphatic "Yes!"

This scam is yet another variation on the "free lunch" offer during which you will be pressured to set up a private appointment when you will be pressured again to purchase an overpriced annuity that is, with very few exceptions, altogether inappropriate for you. While annuities are suitable for a few investors, commission-driven salespeople often sell annuities to those who have no business investing in them. The "come-on" in the postcard you sent to me, which doesn't even mention the word "annuity," is typical:

> **Income Tax Alert**
> **The following is extremely important**
>
> **In 1935, Franklin Delano Roosevelt promised the American Public that they would NEVER pay taxes on their Social Security. The Government has imposed new TAXES on your Social Security benefits. Are you aware how these new laws affect you? There are ways that LEGALLY, you can reduce, or altogether avoid, these UNFAIR additional taxes.**
>
> **Section 72 of the Internal Revenue Service tax code states if you are 65 and older, you are eligible to take advantage of preferential tax treatment and pay NO Social Security taxes.**
>
> Warning: This is Garbage

This is classic misleading advertising, clever wording and all. First, it appeals to your patriotism: after all, if FDR said it, this must be *really* important, valuable, useful, official and legitimate. Second, this isn't new: as explained in previous client letters (most recently issues #29, 40 and 44 of *WCS*), taxes have been imposed on as much as 50% of Social Security benefits since 1984 and 85% since 1994. Third, yes you can legally reduce or avoid these taxes if your taxable income is low enough. While there are methods by which to lower your income theirs is an extremely costly one in terms of commissions and loss of flexibility. Fourth, it appeals to your

sense of equity by calling the taxes "UNFAIR," which they are (especially subjecting the last 35% of Social Security to tax even though it has already been taxed). Fifth, the assertion in the second paragraph that you can *pay* "NO Social Security taxes" is inconsistent with their claim in the first paragraph that income tax *on* Social Security benefits can be avoided; they're obviously trying to confuse and target easy prey (those who lack sophistication in these areas). Finally, the ad gives you a clue as to their method without naming it by using a high-falootin' legal term, "Section 72" of the tax code, which covers the taxation of annuities. It is true that if you have investment income large enough to cause your Social Security benefits to be taxed, you can shift the funds earning that investment income into an annuity where it can grow tax-free and decrease your total income to below the income thresholds at which Social Security benefits are taxed. However, not many people have that much in taxable (non-retirement) investment accounts earning investment income. In addition, it's *generally* not a good idea to tie up your money in annuities, which greatly reduce your flexibility and convert what might be long term capital gains into ordinary income at the cost of oft-exorbitant commissions. And note: you or your heirs will eventually pay tax on the growth, often at the same high tax brackets you are trying to avoid. Additionally (and worse): many well-known con-artist-salesmen advise their victims to withdraw funds from retirement accounts (IRAs, etc.) and invest the proceeds in annuities. Oh joy, you pay the tax up-front and forfeit the opportunity to convert the proceeds to Roth IRAs, where the investment returns are (assuming you follow the easy rules) *forever* tax-free. Are you kidding?

Scams come in many styles

Other recent hard-mail scams include an ongoing one regarding property taxes coming from the "Homeowner Property Tax Review Board, Tax Reduction Review Division," printed in colors resembling those used by your County Property Tax Assessor. It asks that you pay a $189 processing fee to have their firm submit an application requesting a reduction in your property taxes (see my previous comments and how to ask for this yourself in issue # 38, fall 2009 *WCS*, page 5). Another scam targets those who have recently refinanced or paid off their mortgage, with an offer to "check the public records to insure your deed of reconveyance was properly filed and [we'll] send you a certified copy of" same for $145 (or $139 or $167, depending on which con artist is behind it), sent by the "Recording Compliance Board, Title Reconveyance Department" or the "Title Compliance Office, Records Retrieval Division" or some other official-sounding name, with a fee payment deadline to make it appear extra official (after all, isn't that what governments do? You *must* pay by….). However, if you didn't get a copy of the reconveyance (which is *always* sent to you after a refi or loan payoff), you can order one for about $6 from your county recorder's office.

We're also hearing about the usual come-ons for both newly incorporated companies and long-incorporated ones, such as letters from the "Business Filings Division" telling you to "Avoid Penalties, Fines and Suspension—Remit Immediately!" your "Statement of Information Officers List," along with $235. This authorizes the scammer to file the required yearly "Statement of Information" with the state of California, which we complete for you at no charge (if you really need the help).

Scammers can be spammers too

The latest email scam is one quite a few of you have forwarded: it looks like it's sent by the Internal Revenue Service and claims you are "eligible to receive a tax refund of $383.45 [or some such reasonable three-figure refund with pennies included]. Please submit the tax refund request and allow us 6-9 days in order to process it….To access your tax refund online, please click here." Aside from the poor grammar and the promise of an unrealistically short processing time, there's another obvious clue to the certainty this is "phishing": the IRS *never* sends emails to taxpayers. If you "click here" you will likely be scammed and your identity may be stolen. Never, *ever* "click here" when you receive such spam.

A variation of IRS spam is one that reads, typos and all: "We are unable to process your tax return. We received your tax return. However, we are unable to process the return as field." (Yes, it says "field" and not "filed.") It explains you didn't provide all required documents "shown on the tax form," and asks that you send "a photocopy of valid U.S. Federal or State Government issued identification." Since one piece of identification isn't likely enough to steal your identity, I imagine they follow up with additional questions designed to gradually wheedle such information out of you. (And by the way, governments don't ask for your identification when you file tax returns. But then, they already have your Social Security number and the spammer doesn't.)

Scammers use radio and television pitches too

We've had a number of clients ask about "credit repair" companies. The correct answer to "what can I do to raise my credit score?" is "if the derogatory information in your credit report is accurate, you simply need to improve your credit behaviors." Sorry—there is no shortcut to improving your credit rating.

While few of you need this sort of help, you might share the following with friends and family who have such needs. Occasionally we are asked about "tax settlement specialists" and other similarly-named entities, which claim they will help you to compromise your federal and state tax debts ("you can pay pennies on the dollar!" claim the radio ads). You pay $3,500-$4,000 up-front to a firm that arranges an "Offer in Compromise," of which only 15-20% are accepted by the IRS (so, you pay a lot of money and risk an 80-85% chance of failure. It doesn't seem like sound risk management to me.). I have not yet seen a case for which I thought an Offer that *might* be accepted was a better strategy than bankruptcy (Chapter 13 essentially does the same thing as an Offer, but you deal with a bankruptcy judge instead of the IRS.

Which do you think is easier to work with?). In most cases, an installment agreement is the best you can hope for, which these companies generally end up arranging for you—and which you could usually have done yourself. If you ever decide to use a firm to submit an Offer, first either check www.ripoffreport.com for complaints on a specific firm, or Google the name of the firm you are considering and add "scam" after the name; your findings may discourage you from using this option. If you still insist on trying to negotiate a deal with the IRS or state, you can hire us despite our protests (or better yet, begin the process yourself and hire us for assistance as needed).

It's easy to succumb to such scams when they're so pervasive and convincing. Just be sure to think of asking us about these or other promises, which may be too good to be true or simply overpriced, before jumping in front of those headlights coming your way.

Recessions, Quality of Work and Alcoholism

A long-time and very dear client was uncomfortable with my comment in the last issue of *WCS* that, after earthquakes and other catastrophes, construction workers are very busy and often not sober. She felt this could be interpreted to mean construction workers are all a bunch of alcoholics.

While my research suggests a higher percentage of construction workers are alcohol and other-drug addicts than in most other occupations, by no means is this true of anywhere near all of them. Still, because of the structure of their jobs they are often independent and not closely watched by employers, which include homeowners who hire them. Additionally, drinking or use of some drugs is almost "expected" in some circles because so many of their peers do it. While an estimated 10% of the U.S. population are alcohol/other-drug addicts, possibly 30% of construction workers may be (which means 70% are not). If my estimate is in the ballpark, the percentage is similar to that of Academy Award® winning actors during the 20th century. However, those who are familiar with my work on the subject might guess the percentage of construction workers having addiction could be high for an entirely different reason: they can get away with it. (The reason so many great actors and, for that matter, professional athletes have addiction relates to the need to overachieve, driven by alcoholic egomania.)

In recessionary times, less desirable workers are likely to be unemployed. Lower demand creates an oversupply of workers with only the best kept on. Therefore, such times should be taken advantage of by those who can afford it. My experience with restaurant employees in the severe and localized oil recession in Denver in the late '80s is a case in point: the service and value was consistently exemplary and unlike any I have seen before or since. The restaurants offering only so-so service and higher prices had fallen by the wayside.

In occupations where alcoholism is infrequently discovered, poor work is often a problem. In boom times, a demand for every hand and then some decreases the odds of being fired. A catastrophe generates huge demand for construction workers. Fewer are refused a job, increasing the odds that those with poor skills or shoddy workmanship will remain employed. Based on the results, I have little doubt the workers who "fixed" the home I purchased shortly after the Northridge earthquake were practicing alcoholics. Still, my comment should have read:

> Construction workers are very busy after earthquakes and marginal workers—even alcoholic ones—may find work where there was none before. Those who are alcoholics will not be sobered up by an earthquake. While stress does not cause alcoholism (inasmuch as the biochemistry of addicts is clearly different from that of non-addicts, so it is rooted in one's genes), stress *can* trigger relapse. While unemployment is a stressor, so are great temblors and their aftermaths. Therefore, as in every other relationship in your life, the more careful you are in identifying and then avoiding hiring practicing alcoholics the more likely you will be free of physical, psychological and financial harm. And I say this as one who would trust with his life recovering addicts having ten or fifteen years of sobriety.

Our "Client Survey" Results

We'd like to extend a hearty thanks to those responding to our client survey this year. It was a bit different than in prior years, as we wanted to see how many use our "Pocket Pal" calendar and were curious how you felt about the unusual volume of political-economic commentary.

Many clients have long asked that we "not" send the calendar, because you receive plenty of calendars from other sources or have no need for it—life is simple *or* so complex (or you are so high-tech) you use an electronic calendar. However, many of you depend on it (and even ask for two). Because of changes to bulk mail rules, we finally decided it might be worth splitting our list between those who want it and those who don't. Of those who responded, about half of you want the calendar (some desperately!). If you haven't yet responded, you still can do so—but please hurry. Rather than including the calendar in our exclusive "By Mail" package, we're going to include it in our Holiday card mailing (where the calendar will "just" fit). Small business owners, if you use an electronic calendar to track your mileage remember to back up your data and keep it for at least five years (some longer; ask us if this could apply to you).

Political-economic commentary is nothing new. I've commented on

nearly every Presidential election for the last 30 years, written a number of other overtly political essays in-between (including one on the futile war on drugs in 1989, articles on the L.A. riots, pseudo-environmentalism and "Hillary-care" in the early 90s and, in 2003, why Iraqi oil should be privatized), and included in almost every client letter—yes, I'll admit it—"digs" at the idea of having politicians decide for us what should be left to our own devices (nearly everything). I became particularly irritated at the hypocrisy of passing what is falsely called a "patient affordability act," a 2,000+ page bill expanding control over an area of our lives that shouldn't even fall under the purview of government, by an administration that called for "open" discussion and bipartisan cooperation and which then proceeded to stifle discussion and pass the bill on a 100% non-bipartisan basis. I also had watched for decades, under both Republican and Democratic administrations, an unsustainable build-up of unproductive debt and unrealistic promises that have now threatened a systemic economic collapse. Both of these topics are intricately related to the taxes you (and your children and grandchildren) will pay in the future, as well as your personal financial health. Hence, I decided it was entirely appropriate to share my views on these subjects, for better or worse.

The survey results from those of you responding were a resounding "Yes!" to the questions, "Have the political/economic commentary and quotes gotten you to consider new ideas?" and "Do you feel the political/economic commentary is relevant to your financial/tax future?" The first was three and a half to one (and the "one" no doubt consists of many already having a libertarian bent) and the second was well over six to one. We also found that nearly 70% *read* at least 75% of the average issue and over three-quarters *understand* at least 75% of the material (even if multiple readings are required). Nearly everyone responding reads and understands at least half of the articles, which considering the subject isn't bad at all. Because the respondents were self-selected and not random, I suspect that many not responding might have answered more unfavorably on average, but have no way of confirming this. (Of course, we'd be delighted to send those of you not reading this another survey.) The surprise to me, however, was the fact that fully 60% of you feel that at least three-quarters of the average issue is on topic/appropriate for you. Considering how "situation-specific" so many tax and financial (non-political/economic) topics are I was pleasantly surprised. However, perhaps it's at least partly because we take great pains to write on subjects of interest to more than just a few and also try to let you know how the topic *could* at some point affect you. It's also due in part to the fact that you, our wonderful clients, ask so many good questions. Oftentimes we realize the responses should be thoroughly discussed and shared.

Which Character Most Closely Thinks Like Doug? How about Linda? And now Kristin?

I'd like you all to know that our long-time valued and wonderful employee Linda Gurian is moving to Austin, Texas to be closer to her parents and daughter. I wish to publicly thank Linda for all her great work—from tax return assistance to payroll to editing and, well, to just being here! We will all miss you Linda!

As we say goodbye to Linda we welcome Kristin Ericson as Doug's new left-hand lady. When you call us, as she prepares your payroll returns, when she works with you on your tax returns and when you read the "continuing education" section of our exclusive "By Mail" package you will receive in December, you will get to know Kristin.

I thought it might be fun to see how many of you can figure out which of the following characters most closely matches how each of us, including Linda (you'll have to go by memory!) *thinks*. Those with a working knowledge of the Myers-Briggs Personality Type Indicator and Keirseyan Temperament Theory will have a distinct advantage. One hint: although behaviors are usually the key to determining underlying personality type, don't confuse observable behaviors with how we *think*. You're welcome to ask us questions along the way, and we'll be happy to forward any questions to Linda.

Choices for Doug:
- Captain Jean-Luc Picard ("Star Trek: The Next Generation")
- Detective Robert Goren, NYPD ("Law and Order: Criminal Intent")
- Gregory House, MD ("House")
- Spock ("Star Trek")

Choices for Linda:
- Alicia Florrick ("The Good Wife")
- Counselor Deanna Troi ("Star Trek: The Next Generation")
- Detective Olivia Benson, NYPD ("Law and Order: Special Victims Unit")
- Deputy Chief Brenda Lee Johnson ("The Closer")

Choices for Kristin:
- Lisa Simpson ("The Simpsons")
- Clarice Starling ("Silence of the Lambs")
- Dr. Yuri Zhivago ("Doctor Zhivago")
- Dr. Temperance Brennan ("Bones")

We'll track and report your matches in the middle of 2012. We'll also show why the "correct" match is such a perfect fit to how the character *thinks* (but not necessarily behaves). If you'd care to share a character who thinks similarly to you, please do share. If you'd like to try and test *us*, tell us a show on which one of the regular characters is "you" and we'll see if we can figure out which one.