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Client Update



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A FEW OF THE WEIRDEST TAX WRITE-OFFS

Dog-ductions, part 1

What dog lover hasn't melted when man's best friend gives him that baleful look as he heads off to work? One taxpayer decided to create his own tax rule to ease the pain: "There is one individual who tried to deduct a day-care expense for their dog." Says John Barghini, CPA. "The person was working, and they didn't feel that the dog should be left alone, so they hired somebody to watch the dog, then tried to take a day-care tax credit for the doggy-sitting. The dog clearly was an economic dependent, but not for tax purposes."

Dog-ductions, part 2

You think it's hard to find good help? Tell it to the IRS. Even the CPA source for this one wished to remain anonymous: "A landscaper who was under audit with the IRS had deducted the expense of their dog because he would pull the wagon on landscaping jobs. They felt he was out there helping. He may have been listed as an independent contractor."

Now THAT'S a super!

Sure, it's easy to find bad things to say about landlords, but what about all the good things they do? Elizabeth Dittrick, CPA admits that while she liked the sentiment, she wasn't buying this landlord's story for a minute: "There was a guy who had rental property and tried to deduct a limousine charge in the year he got married by claiming that he had taken his renters out for a night on the town, when I knew that it was for the wedding," she says. "I ended up refusing to sign the return."

Pimp my buggy

This one was so outlandish and Dittrick actually faxed us the two-page itemized receipt to prove it: "We live in an Amish community here, and we had an Amish guy who tried to take a deduction for his buggy with velvet interior, the whole works. It was tricked out. He was legitimately Amish, but with all the accoutrements on this buggy, when they're supposed to live a simple life, it was absolutely hilarious," she says. How pimped out was his ride? According to the receipt, this baby came equipped with dash lights, kick plates, tinted windshield, speedometer, hydraulic brakes and dimmer switches. The standard buggy cost \$2,675; this pimped-out version ran \$3,545. "He could deduct the buggy, of course, since it was used for business, but on that one, we had to pick and choose what we were going to deduct," Dittrick says. "But the Amish teenagers do go through a period where they sow their wild oats, so to speak, and put the fuzzy dice and boomboxes in them. Every so often in the police blotters up here you'll see a complaint about a buggy with music playing."

TAX RECORDS YOU CAN TOSS

You can transform that mountain of papers into a molehill without fearing the wrath of the IRS. Here's what you need to keep—and for how long.

By Jeff Schnepfer

I can build a papier-mâché replica of the Empire State Building with my old records. Unless financial nostalgia brings you a warm feeling on a cold night, most of us would like to dump our old records as soon as possible. You, on the other hand, have more sense—I hope. You know that within two weeks of your

bonfire, the IRS is going to demand exactly those documents you burned. So, what information do you have to keep? And how long do you keep it? Let's start with your magic shield of absolute protection from the Internal Revenue Service—the statute of limitations. This limits the number of years during which the IRS can audit your tax returns. Once that period has expired, the IRS is legally prohibited from even asking you questions about those returns. The concept behind it is that, after a period of years, records are lost or misplaced, and memory isn't as accurate as we might hope. There's a need for finality. Once the statute of limitations for a certain year has expired, the IRS can't go after you for additional taxes. But you can't go after the IRS for additional refunds, either.

How the 3-year rule works

For assessment of additional taxes, the statute of limitation runs generally three years from the date you file your return. If you're looking for an additional refund, the limitations period is generally the later of three years from the date you filed the original return or two years from the date you paid the tax. There are some exceptions:

- If you don't report all your income and the unreported amount is more than 25% of the gross income actually shown on your return, the limitations period is six years.
- If you've claimed a loss from a worthless security, the limitations period is extended to seven years.
- If you file a fraudulent return or don't file at all, the limitations period never begins to run. The IRS can, in fact, get you at any time.



If you're deciding what records you need or want to keep, you have to ask what your chances of an audit are. A tax audit is an IRS verification of items of income and deductions on your return. So you should keep records to support those items until the statute of

limitations runs out.

<http://articles.moneycentral.msn.com/TaxesAvoidAnAudit>

TIPS ON SAVING MONEY

Set a budget

At the beginning of every month, sit down and look at how much money you'll have coming in. Subtract the amount you'll owe for bills that are due _ and make a plan for what's left over. It's a simple idea. But the trick is actually doing it, keeping track of what you spend and resisting the urge to pull out the credit or debit card when you can't afford something.

Save early, save often

Even if you're only able to put away \$10 or \$20 a week now, do it. By starting at a younger age, you'll reap the benefits of what Bill Slater, a vice president at MetLife, calls "the magic of compound interest." For instance, if a 25-year-old deposited \$20 a week into a retirement account until age 34, that money would, thanks to compound interest, be worth more at age 65 than \$20 deposited weekly at the same rate from age 35 all the way to 65.

<http://www.msnbc.msn.com/id/7711260/>

QUESTION & ANSWER

Q. How often should you rebalance your 401K(?)

A. You don't want to obsess about it (after all, you have a life to live), but I do recommend at least twice a year. Rather than go through the whole, buying and selling routine, it may be easier to just rebalance with new money. For example, if your bond allocation is below where you want it then redirect the 401(K) to put all new contributions to your bond fund, then go back and check a few months later. This has the advantage that you are probably buying the asset which is out of favor right now (that's why it was low). So you can buy it cheap. If shoes are on sale, you probably go out and buy shoes. The same thing applies to stocks and bonds. Buy the ones that are on sale.

<http://finance.yahoo.com/answers/personal-finance>