



Will Your Tax Return be Audited?

Taxpayers are universally worried about a dreaded letter from the IRS. But what are your chances of being audited? The IRS evaluates tax returns based on their "DIF" scores--a set of IRS formulas known as the "Discriminate Function System." Over 75 percent of the returns that are audited are selected by the DIF computer. The computer compares deductions, credits, and exemptions with the norms for taxpayers in each income bracket. These norms, although kept secret by the IRS, are what will "kick your return out." So, if you have any unusually large deductions for a given year, your likelihood of audit increases. The IRS also has certain risky areas they check, generating audit notices.

- 1. Tax Protests.** If you file a return stating that you owe no tax because the dollar is worthless or make some other tax protest, you will be audited.
- 2. High Income.** Because auditing higher-income taxpayers is likely to produce more additional tax revenue than auditing lower-income individuals, this category is targeted by the IRS.
- 3. Certain Occupations.** Taxpayers whose occupations produce cash income, such as taxi drivers and waiters, run a

higher risk of being audited. Self-employed individuals, particularly independent contractors, are IRS targets for the same reason; they are likely to have unreported cash income.

- 4. No preparer.** If you have a complex tax return and prepared it yourself you are more likely to be audited.
- 5. Certain deductions.** The IRS has found it profitable to audit returns that claim office-in-home deductions, travel and entertainment deductions, and certain other write-offs where they feel taxpayers stretch the truth.
- 6. Related party transactions.** Taxpayers who involve family members in their financial operations are more likely to be scrutinized by the IRS.

Unless there is suspicion of fraud or substantial understatement of income, the IRS has three years from the due date of your return to initiate an audit. However, if you do not file there is no limitation on an audit.

We encourage you to maintain supporting documentation for all deductions and credits and call us immediately if you receive any IRS or state tax notice.

Who Needs Disability Insurance?

One of the most important types of insurance that everyone, including single people, should have is disability insurance. Disability insurance replaces all or part of your income if you are injured and are unable to work. Unless you are independently wealthy and have money in savings to cover all of your expenses, you should have disability insurance. A good disability plan allows you to continue living the lifestyle you are accustomed to.

Often, people assume if they are injured and cannot work that social security will pay. What most people don't know is that you have to have a disability that will last at least a year or will result in your death before the social security administration will consider your claim. If you do receive social security, it may not cover all of your expenses.

Many companies offer a group plan, which is usually reasonably priced. If your employer does not offer a group plan, you may want to ask them if they would allow the employees to participate in a voluntary plan. This means that the company does not need to cover any of the costs, but the employees can get a group rate.

Finally, you may want to buy a plan on your own, which prevents the loss of your plan if you leave your current employer. It is yours; and as long as you pay the premiums, you will always have it.

The ability to work and earn an income is one of the most fundamental things in life. If you are unable to work, having a disability insurance plan that will replace your income is vital.

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Upcoming Events

APRIL 10

**What You Need to Know About
Required Minimum Distributions**
12 noon at our Single Steps
Strategies Workshop Center

APRIL 18

**Big Business Benefits for Small
Businesses**
12 noon at Crowne Plaza, Fort
Couch Road

APRIL 26

Longevity Planning
7 p.m. at our Single Steps
Strategies Workshop Center

JULY 19

Late Retirement Planning
7 p.m. at our Single Steps
Strategies Workshop Center

SEPTEMBER 6

**Estate Planning for Second
Marriages**
7 p.m. at our Single Steps
Strategies Workshop Center

OCTOBER 11

Retirement Planning for Women
7 p.m. at our Single Steps
Strategies Workshop Center

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