

Previewed from the upcoming trading course:

Bulletproof Your Trading Taxes

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**UNRELEASED
MANUSCRIPT**

Appendix 4:
50 tips for
keeping your money:

1) When must I elect Section 475?

Section 475 must be elected on an individual tax return by the earlier of the filing of last year's tax return or the first extension of last year's tax return for an election in the present year. For an entity it must be elected within the first 75 days of the entity's formation.

2) How do I make the election?

Section 475 elections are made with a simple statement on either the extension or the tax return, as referenced above. There is no specific form to indicate that you wish to make the election.

3) How do I then indicate it on my tax return?

Section 475 is then indicated on the return that is filed by including a form 3115 (change in accounting method). In doing so, you must also make a section 481(a) adjustment to last year's positions, restating them as if Section 475 had been in effect at that time.

4) What is the effect of this?

A Section 475 election will make your income or loss ordinary, eliminating the \$3,000 per loss limitation on capital losses. The income is reported on form 4797 and is also ordinary. The downside to this is that if you have any section 1256 gains (60% long term capital gain -

40% short term capital gain), you lose that advantage. The income is all ordinary. Also wash sale rules are not a consideration when you make a Section 475 election, as each position is considered marked to market each day.

5) If I am a Trader, where does my income go?

Section 475 Traders report trading income and losses on form 4797. A Trader not electing Section 475 still reports trading income and losses on a Schedule D.

6) As a Trader, where do my expenses go?

As a Trader, all expenses go either on Schedule C or as flow through items to Schedule E (from an entity).

7) Because my income does not ever go on the Schedule C, does that mean I will always have a loss on my Schedule C?

Yes. There are two separate considerations here. First, if you are a Trader with income on your Schedule D or form 4797, the expenses on the Schedule C are referenced to the income that is reported as being associated with these expenses. In this manner, you do not really have a loss on your Schedule C, but rather Schedule C expenses with income which is reported on another part of the tax return.

The other consideration is if you do not have income, but rather a loss from your trading positions. In this case, the hobby loss rule may be a factor. The hobby loss rule “presumes” that a business will not be a hobby if it shows income in three out of five years (seven for horse breeders). Remember this is only a presumption, and I have had success proving business intent, even with losses in three or more out of five

years. Keeping a trading journal and a set of books and records will go a long way to help us prove business intent.

8) Won't the IRS get suspicious, if they see a loss on Schedule C each year?

See the above answer.

9) As a Trader, where do I report dividends?

Even as a Trader, your dividends go on Schedule B.

10) You mentioned I get to deduct all my seminar expenses as a Trader, but none as an investor - does this include all my expenses, car, hotel, plane tickets and meals?

As a Trader, you get a 100% deduction on your Schedule C (or Schedule E with entities), for all of the above expenses except meals which are limited to 50%. As an investor, none of the above expenses are deductible.

11) How are OEX options taxed and what is the difference between them and other index driven stocks and mutual funds?

OEX options are treated as futures contracts for tax purposes, and are taxed 60% long term capital gain/40% short term capital gain, regardless of how long you hold them. Stock mutual funds and stock positions, on the other hand, are treated as equities for tax purposes - ie.

as either short term or long term capital gains (for positions held more than a year).

12) If I file as a Section 475 Trader, and have a loss, what can I do with it?

As a Section 475 Trader, any loss will be considered an ordinary business loss. It may be carried back 2 years, and forward 20 years against any other income. With an election on a timely filed tax return, you can forego the carry-back and carry it forward 20 years. You would amend any returns you carry back to, use a form 1045 to indicate the carry back, and a form 1040X to amend any prior returns.

13) You mentioned that as an investor or non-Section 475 Trader, I only get to deduct a \$3000 net capital loss on my tax return, what happens to the rest of it?

As an investor or a non-Section 475 Trader, you can apply any capital losses to capital gains, take an additional \$3,000 deduction against ordinary income if there is still a loss remaining, and then carry any balance forward indefinitely. This means, if you have a capital gain in a future year, you get to apply the carry forward loss to the capital gain to net it out to zero, and then take an additional \$3,000 loss against ordinary income in any one year, if there is any of it left. For those taxpayers who are married filing separately, it is the same set of rules, but you only get \$1,500, and not \$3,000, net loss applied to other income.

14) Is a loss from my futures and options on futures (or indexes) treated the same way?

No. You also get to elect to carry back the loss from futures transactions on form 6781 to any gains you may have had in the prior 3 years from similar types of income - ie. futures or any 1256 type income. You then get to carry it forward as a capital loss carry-forward in the same manner as explained in question 13, without a time limitation, and it can be applied against all capital gains, not just Section 1256 transactions.

15) How do I make this election?

There is a box to check on the form 6781 to indicate that you want to carry it back. This is an election, not a requirement, and you can forego the carry-back if you wish.

16) Is there a time after which I can throw away my records?

Most people will tell you that you can discard your tax records for any period after three years of filing the tax return. If however, the IRS suspects fraud, they can audit the return for seven years - so we advise our clients to save all records for that period of time. We also advise our clients to keep all copies of prior tax returns, no matter how long ago they were filed.

17) What if I am audited after that?

Like I just said, if the statute is expired, the IRS has no right to audit you - three years after filing unless fraud is suspected, and then it is seven years.

18) Can you give us some tips to reduce our

chances of being audited?

1-File as a business, where you will be a small fish in a big pond, rather than as an individual, where you will be a big fish in a small pond. There are two audit pools, one for individuals, and one for entities. As an individual, your tax return may stand out, especially with a large number of trades, and huge gross proceeds from trading transactions (even if you do not have a profit). However, as an entity, you will be compared to companies such as IBM and Citibank with income in the billions of dollars. Your tax return, as an entity, will stand a far lesser chance of drawing attention in this audit pool.

2-If you engage in one of these targeted occupations watch out for the following items that the IRS is looking for:

- Sales people - Travel & Entertainment
- Airline pilots-
 - Commuting expenses and a propensity for tax shelters
- Flight attendants - cosmetics, panty hose, & commuting expenses
- Executives with high 2106 expenses, that is business related expenses
- Teachers
 - Home office and
 - Travel expenses
- Clergymen
 - Fake churches and 1099 income from other sources
- Waitresses and cabdrivers
 - Tips

3-Change the IRS center you file in. For example here is one such disparity:

- Boston - in which only .69% of returns filed versus places like
- Anchorage where 2.48% of returns filed are audited

4-Be specific in your expense and income categories:

-Never use categories like Miscellaneous Expense or Income.

5-File your tax return as late as possible.

-It is a known fact that the IRS has certain quotas to meet. If you file on October 15th (with a valid extension) versus April 15th, there is a good chance most of the returns will have already been selected to meet those quotas from the different IRS centers.

6-Chose your tax preparer very carefully.

-The IRS maintains a “hit list” of aggressive tax preparers. If you have your returns prepared by such a preparer, be prepared to have your return looked at with scrutiny.

7-Make sure return is complete and answer all questions fully.

-If you leave questions blank, the IRS will look at the return more carefully, and ask you to complete it. Your objective is to have the IRS look at the return once and only once. The more times they look at your tax return, the more likely they are to find something to question.

8-Be neat.

-A sloppy return, indicates that you are a sloppy record keeper. The IRS will look at these returns with more scrutiny, and in fact may send the return back to you if they can not read something. Again, the less they look at your return, the less the chance they will find something to question.

9-Avoid round numbers.

-Putting round numbers on your return like \$3900 for travel, \$2200 for meals, \$ 4100 for office supplies, etc., will give the appearance that you estimated these figures, and will increase your chances for audit.

10-Take all deductions fully.

-Take all deductions that you are entitled to. I once had a client

who was a car salesman. He heard that the IRS would look carefully at his travel and entertainment expenses, and so he decided, that although he had these expenses, he would leave them off the return, to reduce his chances of being audited. This strategy backfired, as the IRS looked at the return, saw no expenses for T&E and basically said a car salesman should have at least some Travel and Entertainment expense. The tax return was then pulled for audit because this taxpayer did not have an expense they thought he should have had, and the IRS concluded that something was fishy.

19) If I am audited, what is the best way to approach it?

If you were a heart surgeon and had a heart attack, would you operate on yourself? My suggestion is to get a qualified, dispassionate professional to handle the audit. When you are involved in your own audit, you can not handle it objectively and without emotions. And this is something the IRS will pick up on quite quickly. You will naturally be nervous, and the IRS may interpret this as being guilty.

20) If I chose to handle the audit myself, do you have some pointers on how to do it, or for the tax professional I get to handle it for me?

1-Delay the audit as long as possible.

-Auditors have schedules to meet. Chances are there is a time limit on how long the auditor has to finish up your audit. The closer to the deadline you get, the more likely the auditor will be to compromise on some items.

2-Change IRS centers.

-You have a right to have the audit moved to a location in which

you or your tax professional can handle it without undue hardship. Choose a tax professional from a different district, and request the audit be transferred there. When a return is received by another IRS district, chances are it will go to the bottom of the pile, again moving it closer to the deadline. Also, I have heard of cases where the return has been misplaced or lost upon transfer, and then you may not even have to worry about the audit at all, especially if the statute of limitations is a factor.

3-Give in on small items.

-The auditor is like any other employee in any other business. He wants to show his boss results. Don't go into an audit expecting to win on every point. But, rather, give in on the small items, so that the auditor will have some degree of success to show for his efforts, but hold out on the items which are substantial.

4-Let the auditor know you will go above his head if necessary.

-Do this respectfully, but let the auditor know that you know that he is not the last word on anything. Make him aware that you are prepared to go above his head if he is unreasonable. Let him know that you are aware that he has a supervisor you can speak to, an appeals process that you are willing to go through, and even small claims tax court if you do not get something you think you are entitled to.

5-Never give original documents to the auditor.

-If the IRS loses your documentation, it is your tough luck. It will be as if you never had it. Only give the auditor copies of original documents, so that they can not say you never gave it to them, nor can they lose them and say they never existed.

6-Only let auditor look at each set of documents once.

-Once an auditor has looked at a document and given it back to you, you are under no obligation to give it to them again. In fact for the

auditor to get permission to see a document again, he must petition the courts for permission.

7-Use alternate documentation if you don't have what he wants.

-For example if an auditor wants to see an original receipt, and you do not have one, use alternate documentation to substantiate the expense. If you don't have the receipt, a credit card chit and a bill from the credit card company will also prove the expense. A canceled check may even work in some cases to fulfill this criteria.

8-If trip is for charity or business, document it with pictures.

-You want to have as much proof as you can for any trip taken as a deduction. A picture of you handing out food to the survivors of hurricane Katrina, or a picture of you working in an out of town office will add extra credence to your trip and to the nature of it.

However, I must warn you, when your picture is taken, make sure you are not smiling! The IRS has been known to disallow an otherwise deductible trip, if they determine that there is a "substantial element of pleasure" associated with the trip. Even though the nature of the trip was otherwise deductible, the IRS may conclude that you may have had too good a time doing it. Therefore, the IRS could determine that the primary purpose of the trip was for enjoyment, not for work or charity.

9-Save toughest things for last.

-You want to establish credibility by being able to prove the most things in the shortest period of time. The auditor will then consider you to be a conscientious record keeper (first impressions do count), and may be more lenient on future items. Also, as I mentioned before, if you save the toughest things for last, they may be willing to compromise on the more nebulous items due to time limitations and the impression that they have of you as being a conscientious taxpayer.

10-Try to schedule your audit on a Friday before a 3 day weekend, or if

possible on the last day an auditor works before taking a vacation.

-Auditors are human, they will want to get things cleared up and off their desk before they leave for a holiday or vacation. You have a greater chance of ending the audit more quickly, depending on what the auditor has planned in the near future. If you can determine that the auditor is going to take a vacation soon, the day before he leaves is the very best time to schedule your next appointment. The auditor, in fact may mention to you over the phone that he or she needs to see you before a certain date, as they “will be out of town” soon after. He has just tipped his hand, so make sure you take advantage of it.

11-Try to schedule the audit at around 10:30 in the morning.

-Hey, guess what, auditors want to eat lunch too! If you give them two hours before lunch, they may just be hungry enough to cut the audit short, and get it over so that they don't have to come back to it after lunch.

12-Never invite an auditor to lunch.

-For several reasons: First of all, don't try to look too friendly, as they will become suspicious if you are trying to pose as their friend - they know you are not. Secondly, an auditor will generally not accept if you do ask, as they might be seen by some other person in the bureau. It would look particularly bad for them to be seen fraternizing with the person they are auditing. And finally, if you do go to lunch with them, you may say something you shouldn't and will later regret. The less contact you have with an auditor, the less chance you have of incriminating yourself.

13-Do your homework and bring in all supporting schedules on the first round.

-Remember, first impressions do count. Again, look competent, organized, and prepared to gain points in your credibility.

14-Try to limit the items the agent looks at by having them do a random sample.

-If an auditor wants to see expenses on an item throughout the entire year, this may take forever. Sometimes an auditor will be willing to limit the scope of the examination, by choosing a month or two and doing a 100% test of that time period. This may cut down on your work as well as theirs, and will be just as useful to them in their verification.

15-Never go to an audit until you are advised of the reason in writing.

-You must receive a written notice of the audit, when the audit is, and the scope of the audit. Make sure you have this in writing and bring it to the audit, so that if the auditor starts asking questions outside this purview you can put a quick stop to it.

16-Try to look relaxed, even if you are not.

-Body language is significant. If you look nervous, it may be interpreted as guilt. Like I mentioned, this is one good reason not to handle the audit yourself.

17-If you have been audited on the same item a number of times, claim that this is a “hassle audit”.

-Other than on a Schedule C, the IRS only has the right to examine one category for only a year or two - especially if there were no changes or very small ones in the prior audit(s). If they continuously look at the same item, and can not find anything substantial, you can claim that they are conducting a “hassle audit”. In this case you would go to the auditor’s supervisor and inform him of this fact. They may be compelled to stop the audit, unless they can provide you with a valid reason for the particular examination of the same items over and over again.

18-If convinced you are right let him know that you know about the appeals process.

-See point #4.

19-If an auditor comes to your door, unannounced - don't let him in.

-Unless an auditor has a warrant, the worst thing you can do is let him into your house. This is obvious, as you never know what he or she might see. And remember everything you say can and will be held against you.

20-Know the Taxpayer Bill of Rights.

-In 1988 Congress forced a bill of rights on the IRS. Believe me the IRS did not do this out of the goodness of their hearts. The Taxpayer Bill of Rights grants the taxpayer certain rights under the law. They are listed in IRS Publication #1. Get a copy of this and read it before you go into an audit.

21)Does filing as a Trader increase my chances of audit?

No. I have never known this to be the case. In fact, many auditors still don't understand the concept of Traders, and they confuse a Trader with a floor Trader (broker dealer/market maker).

22) You mentioned if I was a futures Trader and had a loss, I should file as a Section 475 Trader. What if I have a Section 1256 gain in the future, can I then still take 60% - 40% treatment of my gains?

No. Once you make the election on your individual tax return, it is a lengthy process to rescind the election. You must apply to the IRS and they must grant permission to go back to a non-Section 475 Trader. I have never seen this happen. A much better method is to elect Section

475 on an LLC, family limited partnership, or even a Sub S corporation tax return. In this case, if you want to rescind the election, just form a new entity - and you will have 75 days from the establishment of the entity to decide if you want to elect Section 475. Some of our clients form new entities each year, just to have more flexibility in whether or not they want to elect Section 475.

23) On an Single Employer Trust (SET) am I limited in the amount of deductible contribution similar to the amount I would be limited to in other types of retirement plans?

No, the amount of contribution is generally much higher in a Single Employer Trust. Actuaries must determine the funding for the benefit desired in the trust. It is usually a far greater amount than in a defined contribution pension plan, an SEP, an IRA, and other such plans. So a Single Employer Trust is the way to go in many instances, even before you set up an IRA, Keogh, or SEP. For more information on how a Single Employer Trust can help augment your retirement planning, call us at 1-800-556-9829, as we specialize in these vehicles.

24) What about the VEBA you talked about in your prior books?

VEBAs have become much more restricted with the Rev. Proc. of November, 2002. Although they are still allowable under law, they are more restrictive than they once were. To see if a VEBA still makes sense for you, call us for a free consultation.

25) What if I trade but have other investments

as well - will this hurt my chances of being a Trader?

No. You can be a Trader, an investor, and a market maker as well. Just make sure you segregate your activities into different accounts.

26) Will having extensive dividend income on my tax return from my investments act against my case for Trader Status?

No. Not if it is in your investment account. See question #25.

27) Will having interest income on my tax return affect my Trader Status?

No. Not if it is in your investment account. Also the earning of interest in your trading account is permissible if it is from money which is in cash, waiting to be traded, which some brokerages give you.

28) How are the Electronically Traded Funds (ETFs) treated for tax purposes?

ETFs are baskets of stocks and are treated as equities for tax purposes.

29) Do I get preferential tax treatment for investing in index funds, as you mentioned options on indexes are given preferential treatment?

No. Although the fund may mirror an index, it is still taxed as a stock. For a preferential tax treatment trade OEX options, E-Minis, etc.

30) Clarify the treatment of different options?

Index and OEX options are taxed as futures contracts, options on futures contracts are treated as futures contracts, and stock options are taxed as stocks.

31) I hear about the Social Security system being in trouble by the year 2024. Don't I have an account with my name on it that has all the money in it that I put away through out my working career?

No. This is a big myth. The Social Security system is the biggest Ponzi scheme in the world. The government is using your contributions to pay for current benefits, with the hope that in the future, they will have enough workers to cover your benefits. This is not how it was set up, but the government never anticipated people living this long, nor the huge base of retirees collecting Social Security. With further medical advances, people will continue to live longer, and in fact, unless something radical changes, the Social Security system will be in worse shape with each passing year. Do not depend on Social Security to cover your retirement needs. If it is there to help you upon your retirement, consider it to be an unexpected blessing. Use the various programs I have discussed to ensure your future solvency and your ability to take care of yourself in retirement. Set up an Single Employer Trust, a Keogh Plan, an SEP, take out some variable annuities and set up as many IRAs as you can. Anything other than this is like gambling at Las Vegas - the house always wins!

32) If I have another business, can't I just add my trading expenses to it?

No. The proper way to handle this is to segregate your trading business from any other businesses you have. The IRS is very big on segregation of assets, expenses, and income. Furthermore, any expense you take in another business will be a deduction from self employment income, which trading income is not. By adding trading expenses to your other business(es) you will be understating your self employment income, and may be subject to penalties and interest as well as additional tax.

33) There is no form on which to file an LLC tax return - what do I do?

LLCs can either be filed as partnerships (on form 1065) or as Corporations (form 1120) with a "check the box election" which must be made upon formation. If you do not make the election, the LLC must be filed as a partnership on form 1065.

34) Does my CPA have client confidentially privileges?

A CPA only has a limited degree of client confidentiality privileges. To ensure full confidentiality, have an attorney hire your CPA, and then because of the attorney's confidentiality privilege, the CPA will also be granted that status.

35) What should I do if my CPA has no idea of

what I'm talking about regarding Trader Status?

It is rare to find a CPA with extensive experience in the field of Trader Status. After all, it has only been codified for the past several years, and many CPAs are not familiar with all the nuances of the law. Our firm handles clients from all over the world and nationally, and will be more than happy to assist you in your endeavors. If you have a CPA that you have been working with for some time, and are reluctant to make the change, Tesser Horowitz & Ullmann works with other CPAs on a fee basis to bring them up to snuff on the latest Trader tax issues. We can accommodate your needs on any level, be it preparation and planning, consultation, or review of your tax return.

36) Do I need different accounts for different types of trading vehicles - options, futures, stocks, etc.?

No, but you must segregate your different activities into trading, investment, and if necessary, even broker dealer activities.

37) Explain in detail the different types of Black and White tax reduction strategies?

There are only 8 different types of Black and White Tax Strategies - four that are income related, and four that are expense related:

Income related strategies:

1) You can transform income;

For example, trading OEX options or E-Minis instead of index mutual funds will qualify you for 60%/40% tax treatment on your gains. Trading index funds, it will all be short term capital gain income, taxed at a maximum 35% this year.

2) You can avoid income;

For example buying Municipal bonds instead of Treasuries.

Municipal bonds are non-taxable on the Federal Tax Return, whereas Treasuries are fully taxable.

3) You can decrease your income;

By selling the stock losses you hold at year end.

4) You can defer income to a future tax period;

For example by buying treasury bills instead of treasury bonds.

Treasury bills pay the interest when the bill comes due, which can be put off until next year, as opposed to treasury bonds which pay interest semi-annually.

Expense related strategies:

1) You can create deductions from expenses which you would have incurred anyway;

For example you can make eating out into a business dinner by inviting someone from your business, perhaps another Trader, to come along. You must discuss business for at least part of the evening, and this can be as simple as swapping trading methodologies.

2) You can accelerate expenses from another period into the current period;

For example you can prepay next year's state tax and mortgage payments, and deduct them in the current year.

3) You can transform expenses from one type to another, increasing their deductibility;

For example, by qualifying for Trader Status you will move expenses that are taken on Schedule A (as an investor) to expenses taken on Schedule C (as a Trader). These are much

more valuable to you, as they are deductions in calculating adjusted gross income, rather than subtractions from AGI. Also, on the Schedule C they are not subject to the limitations and phase-outs that they would be on Schedule A, nor subject to the Alternative Minimum Tax (which they would be if taken on Schedule A).

4) Finally you can increase expenses;

By claiming Trader Status you get many more expenses, such as seminar expense, margin interest expense without limitation, Section 179 depreciation expense, home office deductions, etc. that you would not get as an investor.

38) As a Trader, am I subject to the Self Employment tax?

No, not unless you trade your own commodity account from the floor of an exchange. Even if you elect Section 475, in which the income becomes ordinary, it is not self employment income, and not subject to the SE tax. If, however, you are trading commodities for your own account on the floor of a nationally recognized exchange you will be subject to the SE tax, but will also be able to deduct a retirement plan against this income.

39) How can I take the home office deduction, if I have no Self Employment income?

Although trading income is not self employment income, it is still allowable in the calculation of the home office expense.

40) How can I set up a retirement plan if I have

no Self Employment income?

Unless you are trading your own account from the floor of a commodity exchange, you can not set up a retirement plan on your individual tax return. If you want to set up a retirement account, or for that matter any of the programs discussed in this seminar, you must do it through the formation of an entity. In that case, you would draw a stream of income into the entity which is the Trader, and set up your Single Employer Trust, SEP, Keogh, etc. in that entity.

41) Can I elect Section 179 on all my expenses for hardware and software purchases?

No. Hardware purchases are allowable for section 179 depreciation, however software, such as trading systems, is not. Software is considered to be an intangible asset, and is subject to amortization, usually over 3 years.

42) If I hold a stock with a gain and don't want to take profit on it because of tax purposes, can I "short against the box" to lock in profits?

No. Shorting against the box was eliminated in the 1996 tax act.

43) If I buy put options on the stock will that work?

It depends. If the IRS considers the put to be essentially the same instrument as the stock, they will consider it to be shorting against the box, and disallow it. However, they have no clear cut rules on what is considered to be essentially the same vehicle as a stock. Usually if the put is substantially out of the money, we will consider it not to be the

same vehicle, but again there is no hard and fast rule.

44) As a Trader, do I get to deduct my commissions as an ordinary business expense?

No. Even as a Trader, they are considered to be part of your capital gain or loss. If you are a Section 475 Trader, however, this amounts to the same thing as taking them as a business expense, since your gain or loss is considered to be ordinary.

45) What is the “sunset provision” that affects the estate tax?

The “sunset provision” means that the sun goes down on several tax breaks that were put into effect in the last tax act. With regard to the estate or death tax, there is a period when the tax is totally eliminated (January 1, 2010 through December 31, 2010). On January 1, 2011, however, according to the sunset provision, the death tax goes right back up to 55%. I always recommend to my clients that the best estate planning strategy they can implement is to plan on dying on December 31, 2010. If they wait one more day, and die on January 1, 2011, they will be subject to the onerous estate tax!

46) Are there any other methods for eliminating the estate tax?

Yes. Regardless of the sunset provision, one of the best ways to eliminate the death tax is to set up a family limited partnership and to gift discounted valuations to your heirs. In this way you will still have full control of the assets, but less ownership. This is the best scenario - control but not ownership. Ownership equates to taxes, whereas control does not.

Another very valuable tool is to set up a Crummy Trust, which owns a second to die life insurance policy on the lives of the participants. The premium payments are gifted to the heirs, using the annual gift tax exclusion, and when the participants pass on the assets to the children, the estate tax will have been paid for with the second to die policy. This is a very useful, but little known, tool for avoiding the death tax. Again, in this case, you are not waiting for the government to grant you any tax benefits, but rather taking control of the situation yourself, regardless of whether or not the government extends the sunset provision. Call us for more details on setting either of these plans up.

47) Can I put collectibles such as gold and other items in my IRA?

Collectibles, as a rule are not allowed in IRAs. However, one exception is the American Gold Eagle coin, which I highly recommend to those wanting to diversify their holdings in an IRA.

48) Do I need to list all the trades I make, as they are voluminous?

No, if you have a voluminous number of trades, it is not necessary to list them all separately. What we do is to segregate them by account, and list the total gross proceeds and the total cost, with a note attached to the effect that the Trader has a voluminous number of trades which would be impossible to list individually. We state in this note that the backup transactions are available upon request if the IRS wants them.

I found this out for a fact, when I filed one of my first Trader tax returns back in the early 1980s. I had a day Trader as a client who had hundreds of trading statements (not confirms-but actual statements). The pile of paper was more than two feet high. He had made several thousand trades that year, and I thought that the government would like to see them all. I took the statements and attached them to the return

with a large spike through the returns and the statements and shipped them off to the IRS in a 24 inch box. It wasn't long after that when the IRS wrote back to me and said, "Thank you for your thoroughness, but next year, keep the statements!"

One caveat, though, is to make sure you have accounted for any wash sale trades, unless you are a Section 475 Trader, in listing a gross figure of proceeds and purchase prices.

49) I feel guilty about depriving the government of their tax money, as they need it for good causes, such as the war in Iraq and to bail out states like Louisiana and Mississippi. Don't my tax dollars go to good causes?

Yes, some of your tax dollars do go to some good causes, however many go what is known as "PORK". In other words, one congressman (in wanting to bring home the bacon to his district and use this as ammunition in his re-election campaign), will enlist other congressmen in the same situation to help him. In return they will each wash the other's back by voting for pork projects in each other's district. Don't feel too bad about saving money on your taxes. Remember, the Supreme Court ruled, "It is no taxpayer's duty to pay one cent more than the law demands".

Just to make you feel better about taking all the deductions you are entitled to, I present a list of some of the pork projects which your taxes funded over the past few years.

1) \$94.6 million - To purchase 173 fax machines for the air force.

2) The ongoing Jacksonville expressway project which is costing us \$34,000,000 - per mile.

- 3) \$104,000 - To determine whether sunfish prefer tequila to gin.
- 4) \$399,851 - To determine what makes some people laugh at jokes, while others do not find them funny.
- 5) \$194,000 - To determine why some people want to run for Congress and others do not.
- 6) \$239,986 - To compare the sense of smell in lobsters to that of humans.
- 7) \$172,000 - To determine why some people have a sense of guilt and others do not. (I could have saved them a lot of money just by asking the subjects of the study whether their mothers were either Jewish or Italian).
- 8) \$299,460 - To develop a transsexual fly. But at least in this last project, after many years of work, they finally got results. In a New York Times article dated June 3, 2005, entitled "For Fruit Flies, Gene Shift Tilts Sex Orientation", Elisabeth Rosenthal reported,
"When the genetically altered fruit fly was released...it pursued a waiting virgin female. It gently tapped the girl with its leg, played her a song, and then dared to lick her - all part of the fruit fly seduction (routine). The observing scientist looked on with disbelief at the show, for the suitor in this case was not a male, but (rather) a female that researchers had...endowed with a male gene."

In other words, they really did create a transsexual fly!

So I recommend when you send in your tax dollars, at least make sure you support the more successful projects they are engaging in. In the little memo section at the bottom of the check do like I always do - fill in

where you would like to see your tax dollars spent. And for the last several years, I have written, “For Development of the Transsexual Fly”!

50) What if the IRS tells me they never received my tax return?

A few years ago, the General Accounting Office, the watch dog agency for the government, did an audit on the IRS (how’s that for a switch?). What they found in the Cincinnati IRS Center was that the workers were so over-worked, that instead of looking at tax returns they received, they stuffed them above the tiles in the ceiling, thereby lessening their work load.

The GAO literally found thousands of tax returns hidden behind the ceiling tiles, most of which had never even been logged in as being received.

So the next time the IRS writes you a friendly note, telling you that they have not received a your tax return, tell them to look in the ceiling! Ted Tesser, CPA is a partner in Tesser Horowitz and Ullmann, Inc., 275 Madison Avenue (Suite 902), New York, NY 10016, and can be reached at his toll free number - 800- 556-9829 (800-5LOWTAX).