what the
GOVERNMENT
doesn't want you to know

THE
VANISHING POINT
Most people, when they think of tax audits, picture government agents going after the wealthy 1%. The last people they’d think they’d go after were people in the poorest income bracket. They have enough to worry about without having Uncle Sam’s tax collectors knocking on their door.

Unfortunately for Rachel Porcaro of Seattle, WA, that was the situation she found herself in. Raising two children and living in her parents’ basement, Rachel did everything she could to make sure her sons were taken care of. She didn’t own a house or a car, but she was able to put food on the table with her job as a hairdresser.

That didn’t sit well with the auditors at the IRS. They saw a woman who was receiving no child support payments, and figured there was no way a woman in her situation could raise two children on that salary. So they called her in for an audit to make sure she wasn’t pulling one over on the government.

And that’s when things took a turn for the worst.

After all was said and done, the IRS sent her a tax bill for $16,000 on income she allegedly didn’t report in 2006 and 2007. At the time, her annual salary was only $19,000.

Rachel’s accountant claimed, “The tax compliance officer pulled out an Excel spreadsheet printout and said something to the effect of… (that) IRS data showed that it takes $36,000 to support a family of three in Seattle.”

For the next year she worked with her accountant to resolve the issue. Eventually, Porcaro and the IRS reached a settlement where she would only pay $1,600, a fraction of what the government originally demanded. They fined her because she incorrectly filed as a head of the household and wrongly claimed deductions for her two sons. A petty charge for a mother just trying to support her family.

Unfortunately, the IRS nightmare didn’t stop there.

About a month after she settled her case, her parents received a notice from the government. This time the IRS was up front about why they were being audited. It was because of Rachel, their daughter. They demanded blueprints of their house to see where exactly she and her two children lived.

In the end, Rachel’s parents wound up not owing anything to the government. In fact, they discovered the government actually owed them $200. But that was nothing compared to the thousands of dollars they had to spend on accounting fees in preparation for the audit. Just goes to show you, when you’re going up against Uncle Sam, even when you win, you still ultimately lose.

So where does that leave you?
Odds are you’re not in the same situation as Rachel Porcaro and her parents. But that doesn’t mean you aren’t at risk of a frivolous audit by the IRS. So if you want to protect you and your family, you’re going to have to take matters into your own hands.

In sports, there’s an old saying: *The best offense is a good defense*. When it comes to dealing with the faceless bureaucracy of the IRS, there’s a similar saying.

The best defense is a good offense.

That means making sure you take advantage of every tax deduction and loophole you can find. This might seem counterintuitive, but think of it this way. Do you think the IRS wants to deal with someone like Rachel Porcaro and her parents or someone who understands the tax law inside and out, and can defend himself if called in for an audit?

Rachel and her family played it safe and wound up paying thousands of dollars in accountant fees and IRS penalties. What do you think your best option is?

Let’s see what he has to say.

**“#HB2600”: The Best Tax Advice You’ll Hear All Day**

*Laissez Faire* contributor Sandy Botkin is a tax professional with years of experience under his belt. He’s helped thousands of clients legally protect their hard-earned money from the government’s sticky fingers. We asked him the best advice he could give someone trying to lessen their tax burden. Here’s what he had to say.

> I get queries from reporters all the time asking me for one tip that would reduce many people’s taxes. Without hesitation, my answer is to start up a full-time or part-time small or home-based business.

> Why? We have two tax systems in both the U.S. and Canada. It isn’t one for the rich and one for the poor. It is one to make you rich and one to make you poor. The one to make you poor is for employees.

> Why?

> First, they don’t get that many deductions.

> Second, they are taxed on the first dollar they earn. If they have employee business expenses, these expenses must exceed a threshold before any deduction can be taken. Finally, if you take too many employee deductions, you could be forced to pay a U.S. alternative minimum tax that results in the complete elimination of employee and itemized deductions.

> However, if you have a small business, you can get all deductions available to employees, AND you get to write off part of your house, your spouse, and the equivalent of your kids’ education. You can set up a pension plan that makes any government plan look small. Additionally, you get to take all of your business deductions with no threshold. You are not taxed on dollar one, like employees are. Instead, you get to take all of your business deduc-
tions before you pay any tax on your net income. Finally, business deductions are NOT
subject to any elimination under alternative minimum tax.

Finally, if your small business generates a loss, you can use that loss against any other
form of income such as salaries, gains, pensions, interest, etc. If the loss exceeds all of
this, you can carry back all business losses two years (three years in Canada). Finally,
you get to carry over any excess losses up to 20 years! Thus, you never lose a properly
documented business deduction as long as you are working your business like a business
and not like a hobby.

Bottom line: I can’t fathom why anyone wouldn’t want to set up a small business. In fact,
you might make enough money to be able to quit their job and walk away from their boss.

I go into a lot more detail in my book, Lower Your Taxes — Big Time! I have a whole
chapter devoted to this.

By the way, the reason the government creates good tax laws for business is that they
know that from small acorns come big trees. For example, Apple didn’t start with 200,000
employees. It started out of Steve Wozniak’s and Steve Jobs’ garage. Thus, passing good
tax laws for business creates future jobs.

Starting your own home business is the best thing you can do to lower how much money you send the
IRS. Forming a limited liability company differs from state to state. The forms and steps needed to
create one in California, for example, might be different than the forms and steps required in Florida.
Each state has a different procedure and requires different forms.

That’s why we gave these forms the general term of “#HB2600”.

To find more information on how to access the proper legal forms for your home state, click here for
more information.

Sandy goes into greater detail about all the options you have as a taxpayer as well as 97 other tax
slashing loopholes and strategies in his book, Lower Your Taxes — Big Time!

We Call It the “Rockefeller Law” Loophole

The American economy is built on the backs of small-business owners, so it’s not surprising that this
is one of the more powerful loopholes available. And this is definitely one you should take advantage
of if you want to vanish from the IRS.

Once you start a business, various personal expenses can then be written off as business expenses.

If you can set aside a room in your house as your personal office, you can write it off as a business
expense. How much you deduct depends on how much space your home office takes in your home/apartment. Figuring out how much of your house is dedicated to your business is fairly complicated,
but your accountant should be able to figure it out for you.

Starting in 2013, however, the IRS introduced a simplified method for determining your home office
deduction. Basically, for every square foot of office space in your house, you can claim a $5 deduction, maxing out at 300 square feet. Using this method, if you have a 150-square-foot home office, you can claim a $750 deduction when you file your taxes ($5 \times 150 = $750).

But you need to make sure that your home office is just that. If you allow other family members to use the space for things not related to your business, you could lose the ability to claim it as a business expense if the government ever found out.

Average Americans who can successfully start a business and establish a home office claim between $2,000–10,000 in their taxes.

**Your Next Tax-Deductible Vacation**

If you want to write off every vacation you take from now on, there’s one thing you need to do.

Buy a motor home.

There are two ways to take advantage of this loophole. You see, a motor home can qualify for two types of deductions. If you plan to use it as a second home, you can deduct any interest and property taxes associated with the purchase. But once it’s paid off, your tax deductions end there.

But there’s another way to extend those tax breaks well into the future. On top of that, you could turn every future vacation into a deductible expense. You just need to use the motor home to conduct personal business. Then you can deduct the business use of the depreciation, gas, oil, maintenance, sales tax, interest, and other expenses. If in the course of a year you drive it for 25,000 miles and 20,000 of those miles are business-related, then you can write off 80% of the expenses for your business.

Before you start planning your next cross-country vacation, there are some things you need to know. To avoid any potential problems with the IRS, you need to keep an accurate log of how many miles you put on the vehicle and for what purpose. So if you load up the motor home and visit your grandchildren in another state, you can’t write off the gas you buy during your trip. But if you schedule a business appointment with a client living in Arizona and you happen to spend the night in the Grand Canyon National Park, that might qualify as a tax write-off.

Here are five things you need to do to make the most out of your motor home:

1. Keep a good mileage log. There’s a great way to do this. It’s called TAX Bot. It uses the GPS on your phone to automatically track and record your mileage. [Click here to find out more about the app.]
2. Use your motor home to eliminate the need to stay at a hotel.
3. Make sure your average trip is 30 days or less (the government hasn’t yet decided what happens if your average trip is more than 30 days, but there’s no reason to put yourself at risk).
4. Buy a motor home with a gross vehicle weight of 14,000 pounds or more. If your motor home is more than 6,000 pounds, but less than 14,000, you can still deduct up to $25,000 in business expenses, and you can possibly take advantage of a 50% depreciation bonus. Still a
good write-off, but not as good as the one you can get with a larger motor home.

5. Keep using your motor home for at least five years at a consistent level and percentage or you will have to recapture some depreciation.

The Daily Health Tax Dodge

This might not apply to everyone, but we thought we’d include it just in case it applies to you. For certain professions, you need to be healthy to maintain your job. Jobs like fashion models or professional athletes might be the first ones to pop into your head. But there other more common jobs that require you to maintain a certain level of fitness to perform your duties.

A fireman, for example, can’t be expected to climb 20 flights of stairs carrying close to 100 pounds of equipment if he or she is out of shape and overweight. If your job requires you to be healthy, you can write off health expenses that help you maintain that level of health. That could be nutritional supplements that lower your weight or a gym membership.

What to Do if the IRS Comes Knocking

The last thing you ever want to deal with is the government knocking on your door late at night. But what happens if instead of local police or federal law enforcement officers, you open the door and see an employee from the Internal Revenue Service? If you know what’s good for you, you’ll be more scared of them than any other government official.

Why? Because the IRS doesn’t pull any punches. There’s a reason why notorious gangster Al Capone’s eventual downfall was at the hands of the IRS. They’re a ruthless government agency that has vast resources to get what they want. And when it comes to collecting the government’s debts, they’re relentless.

Thankfully, there are a number of things you can do to protect yourself from these agents if they ever do come knocking. It could mean the difference between a simple inquiry, tax fines, and potentially a criminal sentence.

The first thing you need to determine is what kind of agent they are, a typical IRS agent or a special agent. The latter is the kind you need to be worried about. If you meet up with someone from the IRS and discover they’re a special agent, the first thing you want to do is terminate the meeting. Next, get in touch with a good criminal tax lawyer.

This type of IRS agent investigates criminal activities. And if they’re looking into something you did, the last thing you want to do is saying anything to them.

Why? Because it’s often easier for the IRS to convict for lying to a special agent than for anything you did with your taxes. This is how Martha Stewart found herself in hot water. Even with all the money she’s made throughout her career, she wasn’t able to avoid jail time for the things she said to the IRS.

But after you get in touch with your lawyer, there’s something else you should do. Actually, it’s something you shouldn’t do. Avoid any contact with your personal accountant. He or she isn’t like
your lawyer, doctor, or spouse. Anything said to your accountant can be obtained by the IRS in any criminal matters they’re investigating. It’s best if you cut off communication with them completely until all matters are resolved. If you do need to contact your accountant, let your lawyer hire him so any future conversations are protected by attorney-client privilege.

“Your Voice at the IRS”

It’s not too often that your tax money is put to good use. Most of the time, you see it given to special interests in the form of tax breaks or subsidies. But every once in a while, you find that diamond in the rough. A government service meant to benefit and protect you. It just so happens that in this case, it protects you from the government itself.

It’s called the Taxpayer Advocate Service (TAS). Their job is to ensure that every taxpayer is treated fairly by the IRS. The current tax code is a maze of different laws and regulations written by special interests for special interests. The TAS’ job is to help you get through the mess of code and out of any tax problems you find yourself in.

But their services aren’t necessarily open to everyone. You have to meet a handful of requirements before you can ask the TAS for assistance. So you shouldn’t call them to clarify whether or not your pool qualifies as a tax deduction, but you can call them if you find yourself in a potentially dire tax situation.

Basically, TAS can help you if you meet the following criteria:

• You have a problem with the IRS that hasn’t been resolved yet
• Your problem is causing financial difficulties for you, your family, or your business
• You face (or your business faces) an immediate threat of adverse action
• You have tried repeatedly to contact the IRS, but no one has responded (or responded by the date promised).

Many people associated with TAS are former IRS employees who know how the system works. They know which people to contact, what forms to file, and the best way to make sure your problem is resolved in a timely and beneficial manner. In the 2012 fiscal year, TAS received over 220,000 cases, and they were able to provide full or partial relief in almost 77% of the cases it closed.

If you need to contact the Taxpayer Advocate Service, you can reach them at (877) 777-4778. Additionally, click here to view a list of TAS offices.

The “Christmas Miracle” Tax Loophole

Withholding tax is one of those government programs that’s so ingrained in America’s tax system that no one thinks anything of it. Every time you receive a paycheck, a portion of it is set aside to make sure you have enough money to pay Uncle Sam when April 15 comes around.

The government tells you they want to make sure you have enough money set aside. But let’s face it, they want your money up front, and they don’t want to have to pay interest for it. Because in the end,
you’re giving them an interest free loan on the money they withhold.

But in this case, withholding can be your best friend.

If you pay estimated tax payments, which you do as a business owner, you can skip paying these altogether… without paying a single fee or fine.

But you can only use this loophole if you or your spouse gets a W2 each year.

It’s as simple as asking your employer to withhold all your taxes until your final paycheck of the year. Make sure you have enough money to cover it when the time comes.

Why does it work?

If you or a spouse gets a W2, you have until Dec. 31, to legally pay what you owe in estimated taxes. It’s just another example of how we really do have some great tax laws.

**The 6 Words That Can Protect You in Any Tax Audit**

Did you know that there’s tax filing software out there that could make you a larger target for the IRS? Many of the popular programs will tout how their product makes your life easier during tax season, but they won’t tell you about this little known risk.

So which software should you be worried about? All of them.

When the IRS calls you in to go over your tax return, you should know they’re not on your side. They’re there to find out where you went wrong so they can pounce on your mistake and get what they think is rightly owed to them… and then some. If you’re sitting in an IRS agent’s office, you need to know the best way to protect yourself from whatever they try to throw your way.

And your best protection is six simple words: “to the best of my ability.”

You don’t want to make an auditor’s job easier. And the quickest way to do that is to admit some kind of fault. These six words give the government an answer that doesn’t tie you to any wrongdoing.

Imagine this example. You get that dreaded notice in the mail from the IRS telling you you’ve been selected for an audit of your tax filing for the past year. You call to set up an appointment, gather all the appropriate papers, and prepare for the worst. After some small talk, you get down to business, and the auditor asks you, “Did you enter too many deductions when you filed your 2013 taxes?”

You reply, “I entered everything to the best of my ability.” It’s the same line Jeffrey Skilling, the former CEO of Enron, used while being grilled in court.

It’s the government’s job to prove you did anything illegal, and the last thing you want to do is help them out. They’re not there to help you, so there’s no reason why you should help them.
And make sure you have a story to back up everything you’ve done. It needs to be a consistent narrative that explains why you did what you did, without admitting any wrongdoing.

**The “Intimate Co-Worker” Loophole**

Ask any HR representative and they’ll tell you that having a relationship with a co-worker can lead to a wide variety of problems. But when you own and operate a small business, that could be one of the best decisions you ever make. You just need to make sure that co-worker is your significant other. We call this the “intimate co-worker” loophole, but it can work with any other family member in your household.

Once you’ve employed this family member, other tax opportunities may become available to you. For example, let’s say you hire one of your children, and he or she wants to go to school to improve skills necessary for the job. You can then deduct any expenses paid to enhance your child’s skills. Additionally, if you’ve already taken advantage of the motor home tax break I told you about earlier, you can bring them along with you on business-related trips. You can then deduct any business-related expenses they might incur.

And here’s the best part. Once you’ve employed your spouse or family members, you can deduct their health insurance premiums. Essentially, you’re writing off the money you use to pay for your family’s health insurance. This gets around many of the nasty provisions the Affordable Care Act has created and allows you to take back control of your family’s health care future.

**The Romney Clause**

When presidential candidate Mitt Romney was campaigning in 2012, the media made a big deal about how he paid a lower tax rate than the average American. While many middle-class Americans see an average tax rate somewhere around 20–30%, Romney paid only about 14%.

Before you get outraged, you should know that this isn’t a special tax rate only extremely wealthy Americans can take advantage of. Romney took advantage of a tax loophole that any taxpayer can use. He got most of his money through capital gains and dividends.

**Your Preferred Tax-Free Investment**

Neil George, a colleague at Agora Financial and editor of *Lifetime Income Report* and *Total Income Alert*, told us about this next tax dodge. It’s not necessarily in the same category as a medical deduction or a tax credit, but we like it because it’s an interesting way to collect tax-free revenue. The best part about it is that you don’t have to jump through any loopholes to take advantage of it.

I’m talking, of course, about municipal bonds. Specifically, Neil suggests three municipal bond funds below.

These funds are unique because they’re used to fund various municipal projects throughout the United States. And unlike other bonds that are available, they’re exempt from taxes in the state in which they’re purchased.
First is the **AllianceBernstein National Municipal Income Fund (NYSE:AFB)**. When it comes to bonds, this management company has some of the best muni investment pickers, and the numbers prove out. It has earned investors 115% for the past 10 years and 6.17% for the past year — while paying a monthly dividend check yielding 5.8%.

If you factor in what you’d lose to taxes from a conventional dividend payout — assuming a tax rate of 35% — AFB’s yield equates to an effective yield of 8.91%.

Second is the **BlackRock Municipal Income Trust Fund II (AMEX:BLE)**. The monthly dividend is currently yielding 6.13%, which, adjusted for taxes, equals a tax-equivalent yield of 9.46%. And the return for the year is 12.44%.

Third is the **Nuveen Quality Income Municipal Fund II (NYSE:NQU)**. This is run by one of the best known in the municipal market management businesses. It yields a current rate of 5.12%, giving a tax-equivalent yield of 7.80%. The fund itself is up over 7.77% for the year.

As with all good things… there is one thing to consider. The tax-exempt benefits extend only to the dividend checks that these funds send out. If the price of the stock increases, you’ll be liable for any capital gains taxes you would incur.

Even with this, we still think the fund is a great opportunity.

To maximize this loophole even further, consider starting a Roth IRA account. Take the money you’ve earned from Neil’s tax free municipal bonds and put them towards this account. It’s the best way you can maximize your tax savings.

### The “Good Samaritan” Tax Dodge

If you’re like many Americans, when a loved one needs constant care and attention, you might be the one who takes care of them financially. Though the current tax system does a lot of things wrong, it does allow people who take care of their elderly or sick parents to claim certain deductions.

In many cases, the elderly or sick parent’s own income might be too much for them to qualify as a dependent. But if you provide more than 50% of the financial support to take care of the parent, any medical expenses that you pay for can be deducted when it’s time to pay taxes.

If you and your siblings share the financial responsibility, there are ways to get around the 50% threshold.

Taking care of an elderly or sick parent could be one of the most difficult things you do in your life, so it’s nice to know there are ways to lessen the financial burden you might encounter.

Additionally, if a nurse/caretaker lives in your home to take care of you or your loved one, you can deduct the room they’re living in as a medical expense.
Stop Collecting All Those Receipts

Many taxpayers think that they need to collect every receipt they receive to protect themselves if the IRS ever does come knocking. But that’s not entirely true. While it’s always nice to have a hard copy of any deductions you claim, you don’t have to have physical copies of anything below $100.

That doesn’t mean you can make up expenses just to lower your tax burden. The business expenses have to be legitimate, and it’s up to you to record what the activity was, how much it cost, and where it took place. You might want to add whom you were with, just to cover all your bases.

In fact, using Sandy Botkin’s TaxBot, you can take pictures of your receipts and enter in all the necessary information. It’s simple, it’s easy, and it will save you from coming home with a pocketful of receipts every night.

What to Do Now

The ideas in this report are just a starting point in your quest to vanish from the IRS. Hopefully, these loopholes give you an idea of what it will take to drop off the government’s tax radar. Remember, keeping Uncle Sam’s hands out of your pockets is nice, but using that money to grow your own personal wealth is the best way to stick it to the fat cats in D.C. Anne Schrieber did it with some savvy investments and some hard work. Now you can follow in her footsteps.