



Deadlines and Sufferings

Here is a real-life situation I have seen recently. I think many people will see themselves portrayed here. I know I certainly do.

The point is that we can all be threatened by income taxes, and sometimes those threats force a paralysis of action.

I am telling you this in the hope that if you see yourself, you will learn and not go into paralysis.

The State Tax Levy. For years, the IRS has sold tapes of its tax data to the various state tax authorities. This is how the states know what your Federal tax returns say.

It's Big Brother alright, but there are safeguards. The permission to use this data must be granted each year, and each state is required to write very detailed descriptions of the exact way they intend to use this data.

The States must also explain in detail how they will protect the data from a variety of hazardous exposures, including identity theft.

Most states write a program that matches two pieces of data—an address in that state but no tax return filed. Makes sense, doesn't it? The state wants to know if any of its residents filed a federal tax return but neglected to file a state return.

Well, in 2001 a SC resident took a temporary construction job in NC, which required him to maintain a NC residence for a few weeks.

While living at this temporary NC address, he had his taxes prepared. In NC. He showed the preparer his SC W-2 and his SC Driver's License. The tax preparer asked how they could contact him, and he provided his temporary NC address.

He did everything right, but I'll bet you can guess what happened next. That temporary NC address went into the federal tax return, but no tax return for NC went out.

After a couple of years, NC received their tapes from IRS, and ran the program. They are really trying to determine just one thing—should the taxpayer have filed a NC tax return for that year?

But rather than calling him up and asking, they do things a little differently. They calculate a return and a tax liability for him, using verifiable data from the federal return.

They've already got the federal taxable income, which is the jumping-off point for both NC and SC.

But of course there is no NC withholding,

and the tax balance due immediately hit several thousand dollars, to which they add penalties and interest.

The Notice of Proposed Assessment exceeded \$3,000 and the taxpayer promptly freaked.

Now what is really happening here is that the state just wants to know if the taxpayer truly lives in the state. If not, then the entire thing—the \$3,000 plus penalties and interest—would be quickly withdrawn.

He made one phone call to NC, but was told that he would need an attorney or an accountant to prove residency. And that's where he stopped.

So many of us do this at some point in our lives. We know there is something we must do, and that if we don't do it, bad things could happen. But we don't do it. We are paralyzed.

After the disappointing phone call, the taxpayer let the matter drop.

Well, the various government tax organizations have this happen to them all the time. They send out a notice, and the taxpayer doesn't respond.

They have a standard tactic—they send out another notice, only this one is meaner, and more threatening. When that notice is ignored, they've got a third one ready to go that is really threatening.

And if they **still** get no response, they levy the bank account.

I got a call the next week—I had not known this taxpayer previously—and called the NC Department of Revenue and explained the situation.

I had my signed Power of Attorney ready, and we quickly got down to business. I faxed the W-2 with a SC address and SC withholding, and she checked the NC DMV records and NC property tax.

When she could find no readily verifiable evidence that would support a NC residency, she promptly said she would refund the money.

Took 10 minutes...

Here's the moral: Over half of us never respond to The Letter, whether it's from IRS or a State. And even if they say you owe money, you may not. And if you do, they are not going to go away.

So make the call.

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