

# THE PERIODIC PONDERANCE

Volume 6, Number 4 1919 14th Street, Suite 319, Boulder, Colorado 80302 4th Quarter 2005

Like the rest of America and the world, we at The Wealth Conservancy were stunned by the devastation of the hurricanes in the Gulf Coast this season. The loss of life, the confusion and displacement of the survivors, the wiping out of entire communities and even cities . . . Who can begin to fathom it all? Our hearts go out to everyone who was affected.

One of the results of this kind of catastrophe is that it makes us reevaluate our values, our priorities and our preparedness in the event it happens again or to us. We all know, for example, that we should keep our important papers in a bank safe deposit box, with copies in another safe place. (My parents keep theirs in their refrigerator.) It may also give you peace of mind to know that The Wealth Conservancy is well into the process of scanning (and backing up in a separate location) all the documents you have provided to us. One important and reassuring thing this means to you is that there is a permanent record that will not be destroyed in the event of disaster.

We invite you to send us copies or PDFs of your other important documents so that we may safekeep them for you also, and we welcome any questions you have about the process.

—Barbara Denny



## Clean Fuel Tax Deduction for Hybrid Vehicles



Did you know that you can claim a deduction for purchasing an IRS-qualified fuel-efficient vehicle? In the aftermath of the hurricanes this season and the resulting higher gas prices, it makes more sense than ever. Here, from the IRS website, is the basic information:

If you are the original (first) owner of a qualifying hybrid vehicle — one that combines an electric motor with a gasoline-powered engine — you may be eligible to claim a one-time tax deduction on your federal income tax return.

Under the Working Families Tax Relief Act of 2004, the deduction amount is limited to \$2,000 for cars first put into use in 2004 and 2005. The deduction will be limited to \$500 for vehicles placed in service in 2006, and no deduction will be allowed after that year.

Certain Toyota and Honda models qualify for the deduction:

- Toyota Prius — Model Years 2001 through 2005
- Honda Insight — Model Years 2000 through 2005
- Honda Civic Hybrid — Model Years 2003 and 2005
- Honda Accord Hybrid — Model Year 2005
- Ford Escape Hybrid — Model Year 2005



The deduction must be taken for the year in which the vehicle was first used (regardless of model year). For a car first put into use earlier than 2004 but for which the deduction was not yet taken, a taxpayer may claim the deduction on the amended tax return, using Form 1040X, Amended U.S. Individual Income Tax Return. Taxpayers may amend a previously-filed tax return to claim a refund within three years after the date they filed the original return or within two years after the date the tax was paid, whichever is later.

Please turn to page 2

# The Games People Play

Who are you (financially speaking)? The July 2005 issue of Investment Advisor Magazine included an interesting article about behavioral finance, “which attempts to better understand how cognitive errors and emotional biases tend to influence the decisions made by many investors.” Here is a partial list of behavioral finance terms and definitions. Do they ring any bells for you?

“Anchoring” on irrelevant data; e.g., becoming attached to a specific price as the fair value of a holding

Hindsight bias: After finding out whether or not an event occurred, overestimating the degree to which one would have predicted the correct outcome

Confirmation bias: A tendency to seek only information that confirms one’s opinions or decisions

Regret aversion: Fear of making an incorrect decision

Self-affirmation bias: Believing that one’s investment success is due to wisdom rather than a rising market, for example, but failures are not one’s own fault

Outcome bias: Making a decision based on the desired outcome rather than on the probability of that outcome

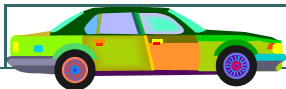
Inappropriate extrapolation: The tendency to look at recent events (or market performance) and assume that those events or conditions will continue indefinitely

Attachment bias: Emotional tie to the money; e.g., money inherited from a grandfather

Status quo bias: Fear of change, resulting in paralysis

Mental accounting: Treating some money (gambling winnings, unexpected bonus) differently than other money

You’ve heard the buzz but you still might not know what a health savings account (HSA) is or whether it applies to you. By now, however, you may feel embarrassed to ask. [www.HSAinside.com](http://www.HSAinside.com) is a website that can tell you what you want to know, anonymously.

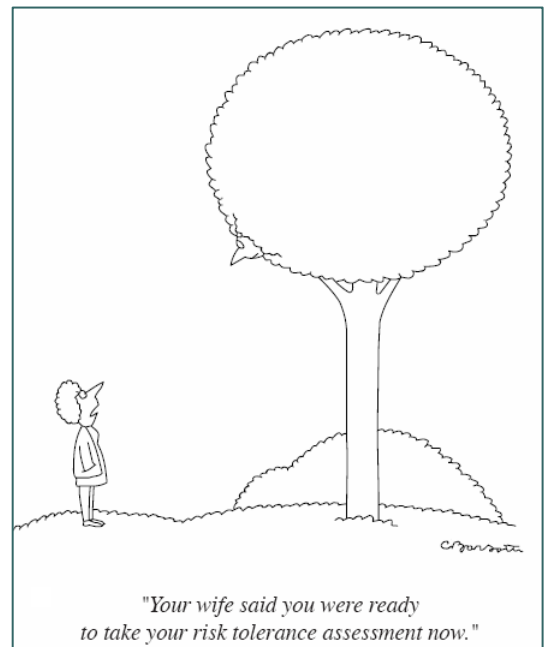


*Continued from Page 1*

This benefit is taken as an adjustment to income. You do not have to itemize deductions on your tax return to claim it, but you do have to use Form 1040. Include your deduction on the dotted line to the left of line 35 of the 2004 Form 1040, and identify as “Clean-Fuel.”

Federal tax law allows individuals to claim a deduction for the incremental cost of buying a motor vehicle that is propelled by a clean-burning fuel. Hybrid vehicles obtain greater fuel efficiency and produce fewer emissions than similar vehicles powered solely by conventional gasoline-powered engines. The deduction amount was set after the automotive corporations documented for the IRS the incremental costs of buying their hybrid vehicles.

For more information on the clean fuel deduction, see IRS Publication 535, Business Expenses. However, hybrid vehicles do not have to be owned or used by businesses to qualify for the deduction — individual taxpayers may also take this deduction. Download Publication 535 or order a free copy by calling toll free 1-800-TAX-FORM (1-800-829-3676).



## FUN AND GAMES: Dealing with the IRS

As you may or may not know, at a “certain” age (actually, 70½), the IRS mandates that most retirement plan distributions begin. The tax penalty for not making the mandatory distribution is 50% of the required distribution amount, which is a pretty nasty penalty.

Mistakenly we advised a client to take the required distribution amount from just one of her retirement accounts instead of proportionately from each account. The penalty was several thousand dollars (which The Wealth Conservancy paid, of course, since the mistake was ours).

As soon as Steve Henningsen discovered the problem, he immediately wrote a letter of explanation to the IRS who responded with compassion and agreed to refund the penalty amount because, in fact, our client did withdraw the correct amount—it just hadn’t come from the correct retirement accounts. We felt vindicated—but then the money didn’t come. And then it still didn’t come. And then, a full year later, it still didn’t come, and by then the IRS had lost all records of the event.

Steve, with our client’s generous cooperation, sought an IRS advocate and—ta-da!—the refund arrived.

In the late 1990’s it became apparent that the IRS was a little too efficient in collecting tax liabilities. As a result, Congress passed the Revenue Restructuring Act (RRA) of 1998. It was hoped that the RRA would result in a kinder-gentler IRS (and the above example would have you believe that it did). The Taxpayer Advocate Service was a product of the RRA.

The Taxpayer Advocate Service is a service offered by the IRS to help taxpayers resolve tax dis-

putes that are not handled promptly or appropriately by the IRS. While the Taxpayer Advocate Service does not provide legal or tax advice, they can help move cases through the IRS bureaucratic process, and they have the ability to impose a temporary hold on IRS collection efforts. This temporary hold allows the Advocate Service time to find the correct IRS personnel to resolve the tax dispute. So in cases where there is no doubt as to accuracy of the taxpayer’s position, the Taxpayer Advocate Service can be a viable resource for resolving tax disputes.

However, the word “advocate” is misleading. The legal community uses the term to refer to zealous representation of one’s legal rights or to argue on one’s behalf. This necessarily entails taking one party’s side and arguing on behalf of that side. The Taxpayer Advocate Service does not side with the taxpayer. Rather they take both the taxpayer and the government’s side, in an effort to move cases through the system. As a result, the Advocate Service typically will not advise taxpayers that, for example, they are entitled to collect interest, damages, and even attorneys’ fees from the government.

For example, in one case I encountered a situation where an IRS Revenue Officer had taken a position that the taxpayer had underreported his income by several hundred thousand dollars. After having no success in talking with the revenue officer, the taxpayer contacted the Taxpayer Advocate Service. That resulted in the case being referred to the revenue officer’s supervisor. That process took several weeks (during which time penalties and interest were accruing), and it only resulted in the supervisor referring the case back

to the original revenue officer. The file then was passed up to the Office of Chief Counsel, but they never did any work on the case due to the Advocate Service getting the case expedited to the Appeals Office, which resulted in a quick settlement agreement whereby the taxpayer paid a portion of the tax, penalties, and interest.

The attorney in the Office of Chief Counsel ended up reviewing the file anyway before it was closed, and he noticed that the original revenue officer had misstated the law and that the taxpayer had correctly reported his income. The taxpayer did not owe the tax, would not have had to pay any penalties or interest, and probably would have been entitled to receive attorney’s fees if he had taken the case to court. That would have been the exact result had the Advocate Service been a few days slower in getting the case to the Appeals Office. A resolution that results in a taxpayer paying only part of a tax liability that he does not owe is hardly “advocating” on a taxpayer’s behalf.

So, the advocates program is not perfect, but it is an avenue to try before doing it the old-fashioned way: by engaging an accountant or attorney to “advocate” on the taxpayer’s behalf. If you find yourself at odds with the IRS, you can reach the Taxpayer Advocate Service by filing a Form 911 (available at [www.irs.gov/advocate](http://www.irs.gov/advocate)) or by calling their office directly at 1-877-777-4778.

—*Kreig Mitchell*



### A LESSON WELL LEARNED

When you are in deep trouble, say nothing,  
and try to look inconspicuous.



To our client who contributed this—  
Thanks!

### Estate Planning Or Financial Planning For Free?

Occasionally we'll hear of a stock broker recommending a doctor buy an expensive, large "investment type" cash value life insurance policy. This is recommended as part of the "free" estate planning the brokerage firm offers its better customers. The advice is usually terrible. "Free" services like this are also provided by many insurance companies. Few relationships are as fraught with potential conflicts of interest as those between brokerage firms or insurance companies and their customers. The salesperson's immediate profit depends on generating sales and not necessarily on increasing customer wealth or well-being. There is little doubt these "free" services are designed to increase sales for the company and little doubt the "advisors" brought in by the broker or insurer understand that mission Buyer Beware!

*Reprinted with permission from the twice-monthly "Collier, Sarner & Assocs. Doctor's Newsletter, which teaches doctors (and others) how to save on their taxes, practice smarter, avoid blunders and retire wealthy. It is in its fourth decade of publication and is available for \$195 per year by calling 888-888-4840.*

## Quick Thinking!

A wealthy man decided to go on a safari in Africa. He took his faithful pet dog, Bogg, along for company. One day Bogg starts chasing butterflies and before long he discovers that he is lost—no sign of his master. As he wanders about he notices a leopard heading rapidly in his direction with the obvious intention of having lunch.

Bogg thinks, "Boyo, I'm in deep doo-doo now." (He was an Irish setter.) Then he noticed some bones on the ground close by and immediately settles down to chew on the bones with his back to the approaching cat.

Just as the leopard is about to leap, Bogg exclaims loudly, "Man, that was one delicious leopard. I wonder if there are any more around here?"

Hearing this the leopard halts his attack in mid-stride, as a look of terror comes over him, and slinks away into the trees. "Whew," says the leopard, "That was close. That dog nearly had me."

Meanwhile, a monkey who had been watching the whole scene from a nearby tree, figures he can put this knowledge to good use and trade it for protection from the leopard. So, off he goes. But Bogg saw him heading after the leopard with great speed, and figured that something must be up. The monkey soon catches up with the leopard, spills the beans and strikes a deal for himself with the leopard. The cat is furious at being made a fool of and says, "Here monkey, hop on my back and see what's going to happen to that conniving canine."

Now Bogg sees the leopard coming with the monkey on his back, and thinks, "What am I going to do now?" But instead of running, Bogg sits down with his back to his attackers pretending he hasn't seen them yet. And just when they get close enough to hear, the dog says, "Where's that monkey? I just can never trust him. I sent him off half an hour ago to bring me another leopard, and he's still not back!!"

—a 2001 random email

Published by  
THE WEALTH CONSERVANCY, INC.  
1919 14th Street, Suite 319  
Boulder, Colorado 80302  
303-444-1919  
FAX 303-444-1479  
[www.thewealthconservancy.com](http://www.thewealthconservancy.com)  
[twc@thewealthconservancy.com](mailto:twc@thewealthconservancy.com)  
© 2005 The Wealth Conservancy, Inc.  
All rights reserved. Not for reprint.