

Tax Season Dangers *by Steve Waas*

In the Summer edition of the Pension Press, Steve Waas, HMEPS' Financial Counselor, discussed Social Security. Steve, who is a Certified Financial Planner, is available for individual meetings with participants, and also will be discussing financial topics in our newsletters to help participants better understand these important issues. This time the topic is Tax Season Dangers.



Steve Waas
Financial Counselor

One of the basic rules of personal finances that people too often ignore is: If it seems too good to be true, maybe it is.

Keep that in mind if you come across any so-called “amazing” tax savings ideas and techniques some people are trying to sell right now, even though tax season is months away.

Above all, remember that according to the IRS: “Taxpayers are responsible for the accuracy of all entries made on their tax returns, which include related schedules, forms and supporting documentation. This remains true whether the return is prepared by the taxpayer or by a return preparer. Be careful in selecting the tax professional who will prepare your return.”

Someone may try to convince you of some great new way of avoiding taxes. This person collects a fee for his services. But where is that “professional” going to be if the IRS thinks this is an attempt to defraud the agency? Pointing a finger at your tax preparer may not keep you out of trouble.

How can you tell the difference between a good tax idea and one that is “too good” to be true? There is no simple answer, but asking lots of questions will help you make the right decision. Make absolutely sure you understand what is going on with your tax return and the justifications for any tax reductions.

Pay attention to certain “red flags” indicating that something might be amiss: Are you being asked to underreport or omit items of income? Overstate deductions? Claim personal expenses as business expenses? Hide assets? Get involved in a “charity” that you suspect isn’t a true charity?

Another thing you can do is spend some time on the www.irs.gov web site. Look through examples of tax scams that are posted there. Are any of them similar to the ones someone is trying to sell to you?

Also, beware of other types of scams that may come your way under the guise of tax issues. For example, there have been many internet “phishing” scams involving emails purportedly from the IRS asking you for personal information. Unsuspecting recipients of these mass emails sometimes send back information that can then result in identity theft. According to the IRS, “the IRS never uses email to contact taxpayers about their tax issues.”

Finally, check out the Financial Counseling section on the www.hmeps.org web site. The section called “Watch Out For These Scams” highlights popular scams of all types, including tax-related ones. We try to keep this updated as various government agencies release new warnings. Staying informed is essential to protecting yourself.

Financial counseling is available at the HMEPS office. Call 713-595-0100 to make an appointment. You can also email Steve Waas at swaas@hmeps.org to set up an appointment.

Borrowing Money at 1000% Interest? *by Steve Waas*

Why would anyone borrow money at 1000%? Believe it or not, sometimes they don’t even know they’re doing it. It happens to people who rely too much on “overdraft protection” at their bank or credit union. Every time a check draws on the overdraft protection - even if it’s a check for just a few dollars - the account gets hit with a \$20 or \$30 fee. Sometimes additional fees apply for each day the account is “underwater.”

This kind of service can be helpful as a way to protect against rare, accidental “bouncing” of checks. But some people find themselves relying on this service so much that it essentially becomes a way to borrow money. When all the fees are added

up and expressed in the form of annualized interest rates, it becomes clear that the interest rate on these “loans” can be 500%, 1000% and even higher.

This is a growing source of revenue for some financial institutions. In some cases they are even adding these services to debit cards. This is particularly ironic since many people use debit cards specifically to avoid paying high credit card interest rates.

For more information, go to <http://www.federalreserve.gov/pubs/bounce/>