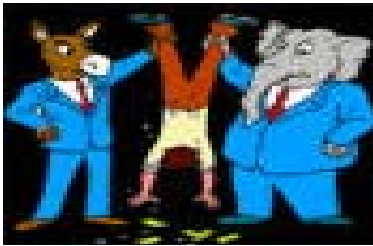


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IT'S NOT A SECRET ANYMORE



Faced with looming budget deficits, a growing number of states are mining for tax cheats. Armed with the equivalent of electronic picks and shovels, they are using sophisticated new computer techniques to root out delinquent taxpayers. They are combing through often different records about peoples' personal finances—everything from house payments to motor-vehicle registration—to discover irregularities. For example: In Texas, revenue officials took records from the Federal Aviation Administration on private jet ownership and compared it to state personal property tax rolls. It found numerous examples of people who hangared their planes in the state but didn't pay taxes on them. The result: \$5.8 million in additional revenue taken in. In Iowa, tax authorities noticed that an out-of-state elec-

tronics company was filing unemployment claims for workers—within the state. It checked the corporate tax rolls. The company wasn't listed. Result: \$1 million in unpaid taxes collected from the firm. In California in one day, the state cross-checked mortgage payment records with its own tax rolls and made an unusual discovery: both a European princess and a prostitute living in a pricey Los Angeles home who have never filed a return. They have now! "This is a trend you should expect to see more and more," says Harley Duncan, executive director of the Federation of Tax Administrators in Washington, D.C. "States are starting to become highly creative in sifting through data to identify nonfilers and do better audit selection. The reason for the investment in "data mining" is certainly understandable. The gap between taxes owed and tax money collected is generally believed to average 17 percent nationwide—representing billions of dollars. States, faced with shrinking revenues and criticized in the past for heavy-handed collections tactics, find the new sleuthing techniques often deliver lucrative re-

turns. And few people seem upset about tax authorities going after European royalty. The computer techniques being used vary widely. They are able to probe different sources in ways that clerks sifting through stacks of paper never could. The most simple ones involve the tried-and-true method of states examining their own returns to look for unusual patterns. More sophisticated tools mine other state databases for comparisons. They might, for instance, cross-check property—and income-tax information with motor-vehicle records to determine if a resident lives in a million-dollar home and drives a Mercedes but only declares \$35,000 in yearly earnings. The most complex systems reach outside the bureaucracy to tap commercial records. By one estimate, only a handful of states are using these "third-generation" data-mining efforts. "The whole area is at an early stage," says John LeFaver, a tax collection specialist with American Management Systems (AMS). "Data mining, to do it effectively, requires a level of

expertise and knowledge that at this point most states don't have. For those states that are delving into the exotic world of "neutral networking," "pattern recognition," and "data cleansing," the results can be substantial. Mr. LeFaver estimates the seven states that have installed AMS systems, at a cost of \$182 million, have realized additional collections of \$904 million. California is viewed as a leader in using mining techniques. Its system analyzes information from 47 different occupational licensing agencies (doctors, lawyers, accountants), and from a host of commercial databases and millions of businesses. The system is helping the state differentiate between the steady taxpayers who miss a single payment, often for understandable reasons, such as illness, with the serial tax dodger. The result: Scarce enforcement resources can be focused on true scofflaws. "By leveraging data about past behavior and determining who is likely to comply and who isn't, it makes for a much less confrontational environment," says John Vrana, an enforcement chief with the California Franchise Tax Board.



Are Your Moving Expenses Tax Deductible?

If you moved because of work—for your first job, new job, or the same job in a new location—the IRS has two tests you must pass in order to write off your moving expenses.

1. The distance between your new primary job and your former home must be at least 50 miles greater than your old commute. (If you didn't have a full-time job before the move, the new job site must be at least 50 miles from your old residence.)
2. You must be employed full time in the general area of your new job location for at least 39 weeks during the 12 months following your move.

If you are self-employed, you also have to pass a third test that requires you to work full time in the new area for at least 78 weeks during the 24 months following your move.

If you are married and file a joint tax return, only one spouse needs to meet both the time and distance tests.

If you pass the tests, you can use Form 3903 to deduct the costs of

- Packing and shipping your belongings, including insurance.
- Storing your possessions for up to 30 days.
- Traveling to your new home, including lodging but not meals.
- Disconnecting utilities at your old home and connecting them at your new home.

However, if your employer reimburses you for any of these qualified moving expenses, they

are no longer deductible and the reimbursement is tax free to you. It will show up as a miscellaneous nontaxable item on your W-2, and you won't have to fill out any extra forms. If your company reimburses you for nondeductible expenses, such as meals and temporary housing, you will have to pay income tax on that money.

"Which are You"

Some people never seem motivated to participate, but are just content to watch while others do the work. They are called "Speck Taters."

Some people never do anything to help, but are gifted at finding fault with the way others do the work. They are called "Comment Taters."

Some people are very bossy and like to tell others what to do, but don't want to soil their own hands. They are called "Dick Taters." Some people are always looking to cause problems by asking others to agree with them. It is too hot or too cold, too sour or too sweet.

They are called "Agie Taters." There are those who say they will help, but somehow just never get around to actually doing the promised help.

They are called "Hezzie Taters." Some people can put up a front and pretend to be someone they are not. They are called "Emma Taters."

Then there are those who love others and do what they are doing and lend a helping hand. They bring real sunshine into the lives of others.

They are called "Sweet Taters."