



October 31, 2010

Tax-related News

Millions Lost in Erroneous Tax Breaks

This year, the IRS processed over 90 million tax returns and paid nearly \$81 billion in tax claims under the stimulus packages given by the government. But the IRS has given out millions of dollars in tax breaks that should not have been given, according to a Treasury Department report. According to the report, the IRS paid \$111 million in false benefits under the government's stimulus plan this year.

The report by the Treasury's Inspector General for Tax Administration stated that most of these were tax credits given under the first time homebuyers' scheme to ineligible claimants where taxpayers who purchase new homes are eligible to receive up to \$8,000.

But the IRS did manage to detect more than 100,000 improper tax claims before they were processed. Nevertheless, about 126,000 claims went through despite being flagged for errors.

8 million claimants made claims for \$7.1 billion under the college tuition tax credit whereas more than 4 million taxpayers received an average of \$2,048 in deductions from the sales and excise taxes on new vehicles. 72% of taxpayers filed their returns electronically.

No Tax Breaks for Breast Pumps

The IRS has ruled out breast pumps as an item that can be bought with money out of tax-free flexible spending accounts or health reimbursement accounts denying the request by the American Academy of Pediatrics. This is because breast milk is not taken to be medicine but food. The same is true for infant formula milk.

Only items that are required for medical care can be considered expenses under the health care reform law. Even over-the-counter drugs cannot be paid using funds from the accounts unless prescribed by a doctor.

This ruling is quite controversial because the IRS has permitted many other items to be bought tax-free that have far less effect on babies' long-term health than breast milk like diaper rash ointment, fertility services and Lamaze classes. On the other hand, breast milk is the sole food for babies from birth till up to a year in age. And we all know about the illness-prevention qualities of breast milk. Breast-fed babies tend to be more resistant to diseases and sicknesses like asthma, childhood leukemia, obesity and sudden death child syndrome.

Brothers Try to Defraud IRS

Two brothers from Portland, Oregon were sentenced in federal court for trying to defraud the IRS of \$1.5 million. Lee Vinton Howlett was sentenced to 60 months' imprisonment and 5 years' probation and his brother Vinton was sentenced to 5 years' probation.

The brothers were also ordered to return the money they gained through filing bogus tax returns for 2 shell companies they set up and banking in the refund checks.