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Ever wonder who makes the rules when it comes to taxes? Or how big the rulebook is? Or who ultimately figures out what the rules really mean and how they relate to your specific tax situation? One of my favorite classes at Portland State University was on tax law. While you may not find the subject matter quite as riveting as I did some 15 years ago, it's probably worth a quick look:

## **FEDERAL INCOME TAX LAW - A PRIMER**

Mr. Lincoln needed money, and fast. It was 1861, shots had been fired at a U.S. military installation in South Carolina and the president had to raise an army to fight a civil war. His solution: a temporary income tax, levied at a modest three percent on income between \$800 and \$10,000, and five percent on income above that level. 140 years later, Honest Abe's temporary measure is still very much a part of our lives.

♦ **The Good Book.** On my desk sits a very fat book (just short of 10,000 pages) called "The Complete Internal Revenue Code-Title 26 of the U.S. Code". . .inside is an accumulation of laws passed by the current and past Congresses. . .these laws address income, estate, employment and excise taxes. . .the writing is convoluted, confusing and broad but the Code is King when it comes to tax law

♦ **Administering the Law.** This is the job of the U.S. Treasury Department in Washington D.C. . .Treasury regulations constitute the federal government's official interpretation of the law and rank just below the Code in terms of importance (my desktop version of "the Regs" comprises five volumes, each thousands of pages long). . .the Internal Revenue Service is a division of the Treasury. . .**THE IRS IS NOT EMPOWERED TO MAKE LAW; ONLY TO ADMINISTER EXISTING LAW.** . .each year the IRS publishes dozens of Revenue Rulings which seek to apply the Code and Regs to specific factual tax situations

♦ **Telling it to the Judge.** Conflicts between taxpayers and the IRS involving interpretation of U.S. tax law are resolved in federal courts. . .U.S. Tax Court is a special federal trial court that hears only federal tax cases. . .Tax Court judges have typically gained years of tax litigation experience. . .trial court decisions adverse to the taxpayer may be appealed to a U.S. Court of Appeals. . .the U.S. Supreme Court rarely hears tax cases; most of these are to settle differences in how regional appeals courts rule in similar tax situations

Interpreting tax law at the practitioner level is often both interesting and challenging, and rarely easy or obvious. If you have a question about the proper treatment of an unusual tax situation, let's talk about it.

## **SAVING FOR COLLEGE—AN UPDATE**

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In May of 2003, Green Sheet #7 discussed college savings plans. I recently attended a class in financial planning for college taught by an instructor with some interesting views. Michael Endersby ([www.collegeplanninguniversity.com](http://www.collegeplanninguniversity.com)) believes that saving for college can be a losing proposition.

◆ **The Problem.** Tuition inflation continues to outpace the general inflation rate. . .investments targeted at funding college tuition must therefore produce a healthy return. . .the stock market—generally the source of the best financial returns—has yet to return to pre 9/11 levels. . .taxes can also take a bite out the investment apple

◆ **The Good News.** No one pays retail for college, Endersby says. . .financial aid in the form of grants and low-interest loans is available to virtually everyone. . .the most appropriate method of financial planning for college is often a matter of positioning the family to take maximum advantage of financial aid programs

◆ **The Game Plan.** Saving for college is very much a personal process. . .values, desires and expectations vary greatly from family to family. . .even professionals disagree in some areas: I'm a strong proponent of the Oregon College Savings 529 plan for modest savers while Endersby appeared to me to be generally lukewarm on 529 plans

#### CLIENT CORNER

Henceforth and forevermore (or until we want to change things) we'll feature in each Green Sheet one of our business clients. This month's focus is on MSB Service Centers, Inc., doing business locally as Sun Automotive.

Mike and Sherrie Buckridge opened University Service Center at 19<sup>th</sup> and Agate in Eugene in 1977 (April Fools Day, he recalls), though Mike had been working in the field long before that. Business blossomed and the Buckridges subsequently opened shops on Main Street in Springfield and on Coburg Road. They currently employ some 20 technicians, service writers and support staff at the three locations.

"People are our greatest asset," says Mike Buckridge, "so we spend a lot of time recruiting and keeping the best people."

**MISCELLANY AND TRIVIA** Larry Jaffe will be out of the office from August 30 through September 10, celebrating a 50<sup>th</sup> birthday and 20<sup>th</sup> wedding anniversary in Australia with his family. The office will, or course, remain open with Bethel, Alicia and support staff on hand to assist clients. Larry A. Jaffe, P.C. has again received a "clean opinion" from its peer reviewer; the peer review program is part of the Oregon Board of Accountancy's quality control efforts for CPAs licensed in Oregon. Finally, remember to contact our office well before the August 15 deadline if you're expecting us to file a second extension of your individual 2003 tax returns.