STEP 2: Thank Goodness for CPA'S

(*not all income is taxable*)

Larken Rose

This is the second in a series of messages written especially for people new to the "861 evidence." This follows **STEP 1:** **Clean Slate** (an appeal to come to this discussion with an open, unbiased "clean slate" free of assumptions and preconceived notions.) The various documents referred to in the discussions are hyperlinked (**blue letters**) to the Internet so that you can see the words for yourself. Where the law is quoted, all emphasis has been added.

- *The **BLUE** links take you to the documents on the **Internet**; when finished reading, hit the "**back**" button to return to the discussion.*

Now that we all have our unbiased, "clean slate" brains ready, let's dive in. This first message is, by itself, not very thrilling (though it's at least short), but we must build a little foundation before we get to the heart of the matter, so read it carefully, even if the relevance isn't apparent yet.

Once there was a guy named Chuck. In 2003 Chuck's parents died in an unfortunate traffic accident and their life insurance policy paid Chuck $200,000. His parents also had a trust which gifted Chuck $11,000 in 2003. Adding on about $2,000 that Chuck made from odd jobs, Chuck received around **$213,000** in 2003.

Being the kind of guy who likes to investigate things for himself Chuck went to the library and found a copy of the Internal Revenue Code, thinking he could do his own taxes. In the very first section, he found this:

> *"There is **hereby imposed on the taxable income** of every individual... who is not a married individual (as defined in section 7703) a tax determined in accordance with the following table:...*
>
> *If taxable income is: Over $115,000 but not over $250,000*
> *The tax is: $31,172, plus 36% of the excess over $115,000."* [**26 USC 1(c)**]

Using a calculator, Chuck calculated that if his taxable income is $213,000, he would owe $66,452 in federal income taxes. Not entirely pleased, Chuck went to see his buddy Mark (who happened to be a CPA) to see if he had figured things right.

It didn't take long before Mark was telling Chuck that his conclusions were **WAY** off, mainly as a result of Chuck just **assuming** that all his income was taxable income. Mark explained that the law generally defines "taxable income" to mean "gross income" minus allowable deductions (**26 USC 63**), and then showed Chuck where the law defines "gross income":

> *"Except as otherwise provided in this subtitle, **gross income means all income from whatever source derived**, including (but not limited to) the following items:*
>
> *(1) Compensation for services, including fees, commissions, fringe benefits, and similar items;*
> *(2) Gross income derived from business;*
> *(3) Gains derived from dealings in property;*
> *(4) Interest;*
> *(5) Rents;*
> *(6)Royalties;...* [the list goes on]." **[26 USC 61]**

Chuck: "It looks like it includes everything."

Mark: "It does appear that way if that's as far as you look."

Chuck: "So, how am I supposed to know where else to look?"

Mark: "Well, you could ask me. Try this on for size..."

> *"Except as otherwise provided in paragraph (2), subsection (d), and subsection (f), gross income does **NOT** include amounts received (whether in a single sum or otherwise) under a **life insurance contract**, if such amounts are paid by reason of the death of the insured."* [**26 USC 101(a)(1)**]

Chuck: "Was that even English?"

Mark: "Almost. What it means is that what you got from your parents' life insurance policy is not 'gross income.' It's not taxable."

Chuck: "Really?"

Mark: "Really. Now look at this ..."

> *"Gross income does **NOT** include the value of property acquired by gift, bequest, devise, or inheritance."* [**26 USC 102**]

Mark: "The $11,000 you got from the trust was also not taxable. That's why they do trusts like that in the first place. It's too low to be hit by the gift tax, and it's exempt from the income tax."

Chuck: "How the heck are normal people supposed to know all this?"

Mark: "Well, you could read a few thousand pages of this stuff or you could just pay a CPA like me to tell you."

Chuck: "You got my business! So I only had a couple thousand dollars of taxable income?"

Mark: "Actually, no. The couple thousand you earned doing odd jobs is wiped out by your standard deduction. You don't have **ANY** taxable income for 2003. You didn't even receive enough gross income to be required to file a tax return."

Chuck: "I got over 200 grand yet I don't owe anything and don't have to file??"

Mark: "You got it."

Chuck: "Thank goodness for CPAs."

Question: Having learned that the income he received was not subject to the tax, is it "greedy" or "unpatriotic" for Chuck to not pay? Is it "cheating" for Chuck not to pay? Of course not; what he owes, **according to the law itself**, is **ZERO**, and he has no obligation -- legal, moral, or otherwise -- to pay more than he owes.

Chuck's cursory look at the law almost cost him a lot of money that he didn't really owe. Good thing Mark, Chuck's CPA friend, knew to look further into the law, huh?

Trouble is, many tax professionals don't look deep enough, and their ***impression*** of the law isn't much more accurate than what Chuck believed after looking at one section alone. In the next message, you'll see why.

Sincerely,

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NEXT: STEP 3: The Unknown Exclusion