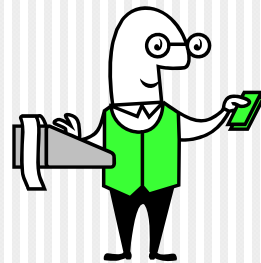


FORENSIC ACCOUNTING IN DISABILITY CASES



What is “proof of loss”?



The Insurance Industry Handbook states that proof of loss is a formal written statement of a claim for payment of loss, with supporting data.

Insurance contracts/policies require “proof of loss” before issuing benefit payments.

What is the best evidence to corroborate “proof of loss” or more specifically “proof of loss of earnings”?...

Federal Income Tax Returns

If contract/policy language does not specifically require the submission of tax returns, the phrase "with supporting data" (*in our opinion*) is sufficient to require the production of federal income tax records.

Usually, proof must be submitted monthly and if not provided within ninety-days of the loss, the claim can be terminated because there is no proof that the loss is ongoing.

The image shows a 1040 U.S. Individual Income Tax Return form. Key sections visible include:

- Line 1:** Total income, showing a value of 10,000.
- Line 7:** Total tax, showing a value of 2,000.
- Line 10:** Refund of overpaid tax, showing a value of 1,000.
- Line 11:** Total refund, showing a value of 1,000.
- Line 12:** Total overpayment, showing a value of 1,000.
- Line 13:** Total underpayment, showing a value of 1,000.
- Line 14:** Total overpayment, showing a value of 1,000.
- Line 15:** Total underpayment, showing a value of 1,000.
- Line 16:** Total overpayment, showing a value of 1,000.
- Line 17:** Total underpayment, showing a value of 1,000.
- Line 18:** Total overpayment, showing a value of 1,000.
- Line 19:** Total underpayment, showing a value of 1,000.
- Line 20:** Total overpayment, showing a value of 1,000.
- Line 21:** Total underpayment, showing a value of 1,000.
- Line 22:** Total overpayment, showing a value of 1,000.
- Line 23:** Total underpayment, showing a value of 1,000.
- Line 24:** Total overpayment, showing a value of 1,000.
- Line 25:** Total underpayment, showing a value of 1,000.
- Line 26:** Total overpayment, showing a value of 1,000.
- Line 27:** Total underpayment, showing a value of 1,000.
- Line 28:** Total overpayment, showing a value of 1,000.
- Line 29:** Total underpayment, showing a value of 1,000.
- Line 30:** Total overpayment, showing a value of 1,000.
- Line 31:** Total underpayment, showing a value of 1,000.
- Line 32:** Total overpayment, showing a value of 1,000.
- Line 33:** Total underpayment, showing a value of 1,000.
- Line 34:** Total overpayment, showing a value of 1,000.
- Line 35:** Total underpayment, showing a value of 1,000.
- Line 36:** Total overpayment, showing a value of 1,000.
- Line 37:** Total underpayment, showing a value of 1,000.
- Line 38:** Total overpayment, showing a value of 1,000.
- Line 39:** Total underpayment, showing a value of 1,000.
- Line 40:** Total overpayment, showing a value of 1,000.
- Line 41:** Total underpayment, showing a value of 1,000.
- Line 42:** Total overpayment, showing a value of 1,000.
- Line 43:** Total underpayment, showing a value of 1,000.
- Line 44:** Total overpayment, showing a value of 1,000.
- Line 45:** Total underpayment, showing a value of 1,000.
- Line 46:** Total overpayment, showing a value of 1,000.
- Line 47:** Total underpayment, showing a value of 1,000.
- Line 48:** Total overpayment, showing a value of 1,000.
- Line 49:** Total underpayment, showing a value of 1,000.
- Line 50:** Total overpayment, showing a value of 1,000.
- Line 51:** Total underpayment, showing a value of 1,000.
- Line 52:** Total overpayment, showing a value of 1,000.
- Line 53:** Total underpayment, showing a value of 1,000.
- Line 54:** Total overpayment, showing a value of 1,000.
- Line 55:** Total underpayment, showing a value of 1,000.
- Line 56:** Total overpayment, showing a value of 1,000.
- Line 57:** Total underpayment, showing a value of 1,000.
- Line 58:** Total overpayment, showing a value of 1,000.
- Line 59:** Total underpayment, showing a value of 1,000.
- Line 60:** Total overpayment, showing a value of 1,000.
- Line 61:** Total underpayment, showing a value of 1,000.
- Line 62:** Total overpayment, showing a value of 1,000.
- Line 63:** Total underpayment, showing a value of 1,000.
- Line 64:** Total overpayment, showing a value of 1,000.
- Line 65:** Total underpayment, showing a value of 1,000.
- Line 66:** Total overpayment, showing a value of 1,000.
- Line 67:** Total underpayment, showing a value of 1,000.
- Line 68:** Total overpayment, showing a value of 1,000.
- Line 69:** Total underpayment, showing a value of 1,000.
- Line 70:** Total overpayment, showing a value of 1,000.
- Line 71:** Total underpayment, showing a value of 1,000.
- Line 72:** Total overpayment, showing a value of 1,000.
- Line 73:** Total underpayment, showing a value of 1,000.
- Line 74:** Total overpayment, showing a value of 1,000.
- Line 75:** Total underpayment, showing a value of 1,000.
- Line 76:** Total overpayment, showing a value of 1,000.
- Line 77:** Total underpayment, showing a value of 1,000.
- Line 78:** Total overpayment, showing a value of 1,000.
- Line 79:** Total underpayment, showing a value of 1,000.
- Line 80:** Total overpayment, showing a value of 1,000.
- Line 81:** Total underpayment, showing a value of 1,000.
- Line 82:** Total overpayment, showing a value of 1,000.
- Line 83:** Total underpayment, showing a value of 1,000.
- Line 84:** Total overpayment, showing a value of 1,000.
- Line 85:** Total underpayment, showing a value of 1,000.
- Line 86:** Total overpayment, showing a value of 1,000.
- Line 87:** Total underpayment, showing a value of 1,000.
- Line 88:** Total overpayment, showing a value of 1,000.
- Line 89:** Total underpayment, showing a value of 1,000.
- Line 90:** Total overpayment, showing a value of 1,000.
- Line 91:** Total underpayment, showing a value of 1,000.
- Line 92:** Total overpayment, showing a value of 1,000.
- Line 93:** Total underpayment, showing a value of 1,000.
- Line 94:** Total overpayment, showing a value of 1,000.
- Line 95:** Total underpayment, showing a value of 1,000.
- Line 96:** Total overpayment, showing a value of 1,000.
- Line 97:** Total underpayment, showing a value of 1,000.
- Line 98:** Total overpayment, showing a value of 1,000.
- Line 99:** Total underpayment, showing a value of 1,000.
- Line 100:** Total overpayment, showing a value of 1,000.

Requests for Federal Income Tax Returns



The requests for tax returns should be complete to avoid any wiggle room by the claimant.

The request for tax returns should also require the production of all W-2, 1099 and K-1 (partner share of income) forms. The request should include any and all business returns for the same years including but not limited to Schedule C & E, 1120, 1120S and 1065 forms.

The requests should be issued using a 30-day response due date.

A total of three such requests should be made.



If the claimant doesn't comply?

If the claimant does not comply after 90 days the claim (in our opinion) can/should be terminated.

A fraud referral should be forwarded to the appropriate Department of Insurance because the failure to comply creates a suspicion that there are unreported earnings.

If you have doubts...

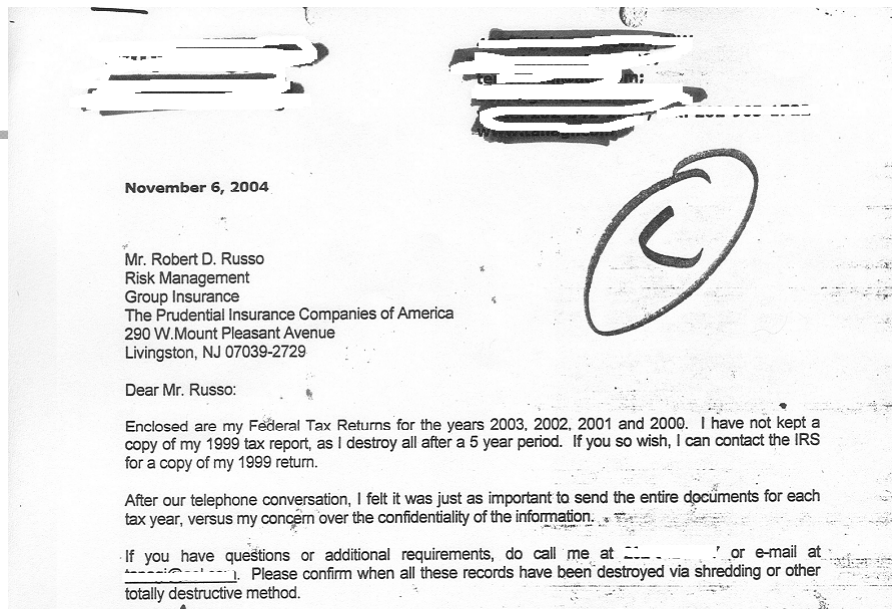


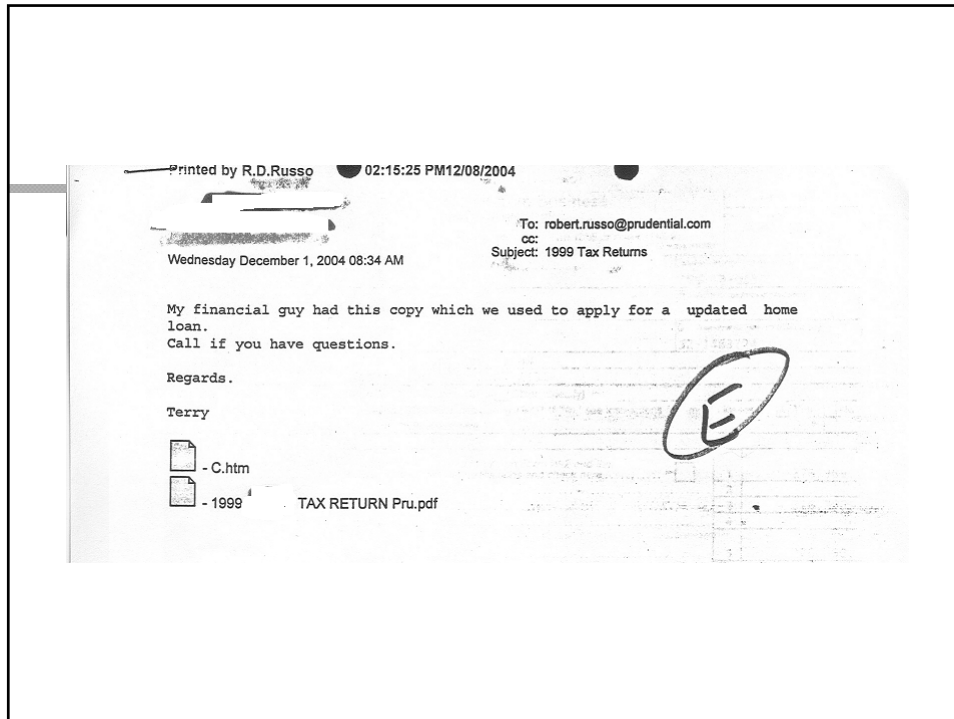
You should request the claimant to sign IRS form 4506T "Request for Transcript of Tax Form".

The transcript will show whether or not the line items on the tax returns filed with the IRS match the returns submitted to the Insurance Company.

OOPS!!

- The claimant submitted a suspicious 1999 tax return to verify pre-disability income of \$250,000.00
- Letter sent to obtain completed form 4506T
- Claimant e-mails our office to say he made a mistake
- Sends in correct tax return.
- Claim was terminated and a \$225,000.00 overpayment assessed.





Schedule C Profit or Loss from Business (Sole Proprietorship)

OMB No. 1545-0047
1999
09

Department of the Treasury
Internal Revenue Service (99)

Name of Proprietor: **Service: Consulting**

Principal business or profession, including product or service (see instructions): **Service: Consulting**

Business Name (if not same as proprietor's): _____

Business Address (include suite or room no., city, town or post office, state, & ZIP Code): _____

Employer ID Number (EIN), if any: _____

Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (Specify) _____

Did you materially participate in the operation of this business during 1999? If "No," see instructions for limit on losses: ☐ Yes ☒ No

If you started or acquired this business during 1999, check here: _____

Part I Income

1	Gross receipts or sales. Caution: If this income was reported to you on Form 1042 and the statutory employer's box on that form was checked, see the instructions and check here.	1	375,969.
2	Returns and allowances	2	
3	Subtract line 2 from line 1	3	375,969.
4	Cost of goods sold (from line 42 on page 2)	4	
5	Gross profit. Subtract line 4 from line 3	5	375,969.
6	Other income, including federal and state gasoline or fuel tax credit or refund	6	
7	Gross income. Add lines 5 and 6	7	375,969.

Part II Expenses. Enter expenses for business use of your home only on line 30.

8	Advertising	8	0.	19	Pension and profit-sharing plans	19	
9	Bad debts from sales or services (see instructions)	9	0.	20	Rent or lease (see instructions):	20a	
10	Car and truck expenses (see instructions)	10	3,373.	21	Vehicles, machinery, and equipment	21a	
11	Commissions and fees	11	0.	22	Other business property	22a	
12	Depletion	12	0.	23	Repairs and maintenance	23	
13	Depreciation and Section 179 expense deduction (not included in Part III) (see instructions)	13	1,775.	24	Supplies (not included in Part III)	24	1,326.
14	Employee benefit programs (other than on line 19)	14	0.	25	Taxes and licenses	25	
15	Insurance (other than health)	15	1,785.	26	Travel, meals, and entertainment:	26a	58,486.
16	Interest:			27	Meals and entertainment	27a	13,061.
16a	Mortgage (paid to bank, etc.)	16a	51.	28	Enter nondeductible amount included on line 26a (see instructions)	28	6,541.
16b	Other	16b	32,299.	29	Subtract line 28a from line 26a	29	6,540.
17	Legal & professional services	17		30	Utilities	30	
18	Office expense	18		31	Wages (less employment credit)	31	7,227.
29	Total expenses before expenses for business use of home. Add lines 8 through 27 in columns	29		32	Other expenses (from line 48 on page 2)	32	112,863.
30	Tentative profit (loss). Subtract line 29 from line 7	30		33		33	
31	Expenses for business use of your home. Attach Form 8829	31		34		34	
32	Net profit or (loss). Subtract line 30 from line 29	32		35		35	
33	If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see instructions). Estates and trusts, enter on Form 1041, line 3.	33	256,103.	36		36	
34	If a loss, you must go on to line 32.	34		37		37	
35	If you have a loss, check the box that describes your investment in this activity (see instructions).	35		38		38	
36	If you checked 35a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see instructions). Estates and trusts, enter on Form 1041, line 3.	36		39		39	
37	If you checked 35b, you must attach Form 6198.	37		40		40	
38	BAA For Paperwork Reduction Act Notice, see Form 1040 instructions.	38		41		41	

FD-20112 1/01/99

Prudential Financial

Robert D. Russo
Risk Management
Group Insurance
The Prudential Insurance Company of America
290 W. Mount Pleasant Ave., Livingston NJ 07039-2729
Tel 973-548-6495

December 1, 2004

Dear [REDACTED]:

We are continuing with our review of your current claim for Long Term Disability benefits under Prudential Group Policy 35733 issued to Printer's Disability Trust. The date of disability for your current claim is July 27, 2001.

The terms of this group policy provide that proof of loss/earnings be confirmed to the satisfaction of Prudential. As part of our review we require that you provide the information and/or documentation listed below:

- ✓ Complete, sign and return form 4506T by mail. The IRS will only accept an original completed form 4506T. Please do not send a copy or reply by fax.

Please provide the information and/or documentation requested, to the address shown above, not later than December 15, 2004 in order for us to expedite the review of your current claim. The documents you provide will remain confidential and be used solely for the purpose of verifying proof of loss.

If you have any questions with respect to this request, or are unable for any reason to comply with this request in the time period provided, please contact the undersigned at 973/548-6495, between 8:00 AM and 4:00 PM EST. Future benefits may be interrupted pending receipt of the requested information and/or documentation after December 15, 2004.

Sincerely,

Robert D. Russo

To: robert.russo@prudential.com

cc:

Subject: Updates all tax returns for 1999-2003 except for 2000

Wednesday December 8, 2004 11:45 AM

After re-examining at least twice the tax returns already sent to your attention, I noticed the return for 1999 was actually a forecast tax return assuming I had been awarded a major contract, which never materialized. I also was testing this out to assess what refinancing I might get on a new mortgage. A pdf copy of the actual return for 1999 is in this e-mail. As far as I can tell, all the remaining tax returns that I have included in this e-mail as pdfs are correct. I do not have a copy of my 2000 tax return on my computer.

Sorry for the confusion but after four cranial surgeries and a new one yet to take place, there is no doubt my mind can get confused.

I have forwarded the 4505-T to the IRS.

Please tell me why we are going through this process, as this claim was initiated in June 2001.

Regards...

- C.htm
- 1999 TAX RETURN Final.pdf
- 2001 TAX RETURN.pdf
- 2002 Return.pdf
- 2003 Final Tax Return.pdf

Profit or Loss from Business (Sole Proprietorship) 1999

OMB No. 1545-0045

1999

09

541600

Service Consulting

Business Name, if different from Proprietor's Name, Last, First, Middle Initial

Business Address (Include state or foreign country, street or P.O. Box, city, state, and ZIP Code)

Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) _____

Did you "materially participate" in the operation of this business during 1999? If "No," see instructions for limit on losses. ☒ Yes ☐ No

If you started or acquired this business during 1999, check here _____

Part I Income

1 Gross receipts or sales. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see the instructions and check here ☐ 1 216,969

2 Returns and allowances 2 216,969

3 Subtract line 2 from line 1 3 216,969

4 Cost of goods sold (from line 42 on page 2) 4

5 Gross profit. Subtract line 4 from line 3 5 216,969

6 Other income, including federal and state gasoline or fuel tax credit or refund 6

7 Gross income. Add lines 5 and 6 7 216,969

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising 8 0

9 Bad debts from sales or services (see instructions) 9 0

10 Car and truck expenses (see instructions) 10 3,373

11 Commissions and fees 11 0

12 Depreciation 12 0

13 Depreciation and Section 179 expense deduction (not included in Part III) (see instructions) 13 1,775

14 Employee benefit costs (other than on line 15) 14 0

15 Insurance (other than health) 15 1,786

16 Interest: a Mortgage (paid to bank, etc.) 16a 511 b Other 16b 32,259

17 Legal & professional services 17 32,259

18 Office expense 18

19 Pension and profit-sharing plans 19

20 Rent or lease (see instructions): a Vehicles, machinery, and equipment 20a b Other business property 20b

21 Repairs and maintenance 21

22 Supplies (not included in Part III) 22 1,326

23 Taxes and licenses 23

24 Travel, meals, and entertainment: a Travel 24a 58,486 b Meals and entertainment 24b 13,081

25 Utilities 25

26 Wages (less employment credits) 26

27 Other expenses (from line 48 on page 2) 27 7,227

28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns 28 112,863

29 Tentative profit (loss). Subtract line 28 from line 7 29 104,106

30 Expenses for business use of your home. Attach Form 8829 30 8,003

31 Net profit or (loss). Subtract line 30 from line 29. If a profit, enter on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see instructions). Estates and trusts, enter on Form 1041, line 3. If a loss, you must go on to line 32. 31 96,103

32 If you have a loss, check the box that describes your investment in this activity (see instructions). If you checked 32a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see instructions). Estates and trusts, enter on Form 1041, line 3. All investment is at risk. If you checked 32b, you must attach Form 6198. Some investment is not at risk. 32a ☐ 32b ☐

BAA For Paperwork Reduction Act Notice, see Form 1040 instructions. Schedule C (Form 1040) 1999

Partial Disability Claims



Partial disability claims allow the claimant to return to work part-time. His/her earnings are used to calculate the amount of benefits to be paid.

Most policies will stipulate a minimum and maximum limit (20%-80%).

If the claimant exceeds the maximum amount allowed, the claim will be terminated.

What is Earned Income?

Earned income is *ALL* earnings unless it is passive in nature. Usually, interest income, rental income, capital gains, dividends or any other income that the claimant received, which was not the result of his/her material participation, are not considered earnings



Types of Earned Income

Income is usually paid in the form of wages reported on form W-2 and reflected on line 7 of form 1040.



IRS Form 1040

1040 U.S. Individual Income Tax Return **2000**

For the year Jan. 1-Dec. 31, 2000, or other tax year beginning 2000 ending 2000 (OMB No. 1545-0047)

Label Your first name and last name Last name Your social security number

Use the IRS instructions on page 10. Enter your name, address, and other information on page 10. If you have a P.O. box, see page 10. If you have a foreign address, see page 10.

Check only one box. **Filing Status** 1 Single 2 Married filing joint return (even if only one had income) 3 Married filing separate return. Enter spouse's social security no. above and full name here. 4 Head of household (see instructions on page 10). Enter the name of the qualifying person on line 21. 5 Qualifying widow(er) with dependent child (see instructions on page 10). Enter the child's name here.

Exemptions a ☐ Yourself. If your parent or someone else can claim you as a dependent on his or her tax return, do not check box 6a. b ☐ Spouse. c ☐ Dependents. List name (if two names, last name first) (2) Dependents' social security number (3) Relationship to you (4) Age (5) Date of birth (month/day/year) (6) No. of hours worked in 2000 (7) Total number of exemptions claimed

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2. 8a Taxable interest. Attach Schedule B if required. 8b Tax-exempt interest. Do not include on line 8a. 9 Ordinary dividends. Attach Schedule B if required. 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 20). 11 Annuity received. 12 Business income or loss. Attach Schedule C or C-EZ. If required, if not required, check here ☐. 13 Capital gains or losses. Attach Schedule D if required. If required, if not required, check here ☐. 14 Other gains or losses. Attach Form 4797. 15a Total IRA distributions. 15b Taxable amount (see page 20). 16a Total pensions and annuities. 16b Taxable amount (see page 20). 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 18 Farm income or loss. Attach Schedule F. 19 Unemployment compensation. 20a Social security benefits. 20b Taxable amount (see page 20). 21 Other income. List type and amount (see page 20). 22 Add the amounts on lines 7 through 21. This is your total income.

Adjusted Gross Income 23 IRA deduction (see page 27). 24 Student loan interest deduction (see page 27). 25 Medical savings account deduction. Attach Form 8883. 26 Moving expenses. Attach Form 3903. 27 One-half of self-employment tax. Attach Schedule SE. 28 Self-employed health insurance deduction (see page 20). 29 Self-employed SEP, SIMPLE, and qualified plans. 30 Charitable contributions subject to limitation. 31a Amount paid. b Recipient's SSN. 32 Add the amounts on lines 23 through 31. This is your adjusted gross income.

Adjusted Gross Income 33 IRA deduction (see page 27). 34 Charitable contributions subject to limitation (see page 27).

Vendor/Contractor (1099)

Income is paid and reported on form 1099. This may be reflected on line 21, form 1040.

Form 1099-R and **Form 1099-NEC** (see instructions on page 10). Enter your name, address, and other information on page 10. If you have a P.O. box, see page 10. If you have a foreign address, see page 10.

Check only one box. **Filing Status** 1 Single 2 Married filing joint return (even if only one had income) 3 Married filing separate return. Enter spouse's social security no. above and full name here. 4 Head of household (see instructions on page 10). Enter the name of the qualifying person on line 21. 5 Qualifying widow(er) with dependent child (see instructions on page 10). Enter the child's name here.

Exemptions a ☐ Yourself. If your parent or someone else can claim you as a dependent on his or her tax return, do not check box 6a. b ☐ Spouse. c ☐ Dependents. List name (if two names, last name first) (2) Dependents' social security number (3) Relationship to you (4) Age (5) Date of birth (month/day/year) (6) No. of hours worked in 2000 (7) Total number of exemptions claimed

Income 7 Wages, salaries, tips, etc. Attach Form(s) W-2. 8a Taxable interest. Attach Schedule B if required. 8b Tax-exempt interest. Do not include on line 8a. 9 Ordinary dividends. Attach Schedule B if required. 10 Taxable refunds, credits, or offsets of state and local income taxes (see page 20). 11 Annuity received. 12 Business income or loss. Attach Schedule C or C-EZ. If required, if not required, check here ☐. 13 Capital gains or losses. Attach Schedule D if required. If required, if not required, check here ☐. 14 Other gains or losses. Attach Form 4797. 15a Total IRA distributions. 15b Taxable amount (see page 20). 16a Total pensions and annuities. 16b Taxable amount (see page 20). 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E. 18 Farm income or loss. Attach Schedule F. 19 Unemployment compensation. 20a Social security benefits. 20b Taxable amount (see page 20). 21 Other income. List type and amount (see page 20). 22 Add the amounts on lines 7 through 21. This is your total income.

Adjusted Gross Income 23 IRA deduction (see page 27). 24 Student loan interest deduction (see page 27). 25 Medical savings account deduction. Attach Form 8883. 26 Moving expenses. Attach Form 3903. 27 One-half of self-employment tax. Attach Schedule SE. 28 Self-employed health insurance deduction (see page 20). 29 Self-employed SEP, SIMPLE, and qualified plans. 30 Charitable contributions subject to limitation. 31a Amount paid. b Recipient's SSN. 32 Add the amounts on lines 23 through 31. This is your adjusted gross income.

Adjusted Gross Income 33 IRA deduction (see page 27). 34 Charitable contributions subject to limitation (see page 27).

Sole Proprietor (Schedule C)



Net income from the claimant's business; reported on Schedule C, line 31.

This amount is also reported on line 12, form 1040.

Schedule C

SCHEDULE C
(Form 1040) **Profit or Loss From Business**
(Sole Proprietorship)

Department of the Treasury Internal Revenue Service **2000**
OMB No. 1545-0047
Attachment Sequence No. 09

1. Sole proprietor's name (if different from taxpayer's name) _____
2. Social security number (SSN) _____

3. Principal business or profession, including product or service (see page C-1 of the instructions) _____
4. Business name, if no separate business name, leave blank _____

5. Business address (including suite or room no.) (City, town or post office, state, and ZIP code) _____

6. Accounting method: (a) ☐ Cash (b) ☐ Accrual (c) ☐ Other (specify) _____
7. Did you "materially participate" in the operation of this business during 2000? If "No," see page C-2 for limits on losses. ☐ Yes ☐ No

Part I Income

1. Gross receipts or sales. Caution: If this income was reported to you on Form W-2 and the "statutory employer" box on that form was checked, see page C-2 and check here ☐ **1** _____
2. Returns and allowances _____ **2** _____
3. Subtotal line 1 from line 1 _____ **3** _____
4. Cost of goods sold (from line 42 on page 2) _____ **4** _____
5. Gross profit. Subtract line 4 from line 3 _____ **5** _____
6. Other income, including federal and state gasoline or fuel tax credit or refund (see page C-2) _____ **6** _____
7. Gross income. Add lines 5 and 6 _____ **7** _____

Part II Expenses. Enter expenses for business use of your home only on line 30.

8. Advertising _____ **8** _____
9. Bad debts from sales or services (see page C-3) _____ **9** _____
10. Car and truck expenses (see page C-3) _____ **10** _____
11. Commissions and fees _____ **11** _____
12. Depreciation _____ **12** _____
13. Depreciation and section 179 expense deduction (see instructions in Part III (see page C-3)) _____ **13** _____
14. Employee benefit programs (other than on line 18) _____ **14** _____
15. Insurance (other than health) _____ **15** _____
16. Interest _____ **16** _____
17. Legal and professional services _____ **17** _____
18. Office expense _____ **18** _____
19. Pension and profit-sharing plans _____ **19** _____
20. Rent or lease (see page C-4) _____ **20** _____
21. Repairs and maintenance _____ **21** _____
22. Supplies (see instructions in Part III) _____ **22** _____
23. Taxes and licenses _____ **23** _____
24. Travel, meals, and entertainment _____ **24** _____
25. Multi- and _____ **25** _____
26. Other nondeductible expenses (see instructions in Part III) _____ **26** _____
27. Utilities _____ **27** _____
28. Wages (see instructions in Part III) _____ **28** _____
29. Other expenses (from line 42 on page 2) _____ **29** _____
30. Total expenses before expenses for business use of home. Add lines 8 through 29 in column _____ **30** _____
31. Net profit or loss. Subtract line 30 from line 7 _____ **31** _____

32. If you have a loss, check the box that describes your investment in this activity (see page C-5):
a. If you checked 32a, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
b. If a loss, you must go to line 32.
c. If you checked 32b, enter the loss on Form 1040, line 12, and also on Schedule SE, line 2 (statutory employees, see page C-5). Estates and trusts, enter on Form 1041, line 3.
d. If you checked 32c, you must attach Form 8198.

33a. ☐ An investment is at risk.
33b. ☐ Some investment is not at risk.

For Preparation Instructions See Form 1040 Instructions. Cat. No. 11330P Schedule C (Form 1040) 2000

Form K-1

SCHEDULE E (Form 1041) Supplemental Income and Loss		OMB No. 1545-0045 2006	
From real estate, royalties, partnerships, trusts, REMIC, etc.		Do not include:	
1. Attach to Form 1041 and file with your tax return.		2. See instructions for Schedule E (Form 1041).	
3. See instructions for Form 1041.		4. See instructions for Form 1041.	
Part I Income or Loss from Rental Real Estate Properties		Net rental income and expenses	
1. Show the net rental income or loss from each rental real estate property.		2. For each rental real estate property, enter the net rental income or loss from the property. If the net rental income or loss is a loss, enter "0" for each rental real estate property. If the net rental income or loss is a loss, enter "0" for each rental real estate property.	
A		B	
C		D	
E		F	
G		H	
I		J	
K		L	
M		N	
O		P	
Q		R	
S		T	
U		V	
W		X	
Y		Z	
AA		AB	
AC		AD	
AE		AF	
AG		AH	
AI		AJ	
AK		AL	
AM		AN	
AO		AP	
AQ		AR	
AS		AT	
AV		AW	
AX		AY	
AZ		BA	
BB		BB	
BC		BC	
BD		BD	
BE		BE	
BF		BF	
BG		BG	
BH		BH	
BI		BI	
BJ		BJ	
BK		BK	
BL		BL	
BM		BM	
BN		BN	
BO		BO	
BP		BP	
BQ		BQ	
BR		BR	
BS		BS	
BT		BT	
BU		BU	
BV		BV	
BW		BW	
BX		BX	
BY		BY	
BZ		BZ	
CA		CA	
CB		CB	
CC		CC	
CD		CD	
CE		CE	
CF		CF	
CG		CG	
CH		CH	
CI		CI	
CJ		CJ	
CK		CK	
CL		CL	
CM		CM	
CN		CN	
CO		CO	
CP		CP	
CQ		CQ	
CR		CR	
CS		CS	
CT		CT	
CU		CU	
CV		CV	
CW		CW	
CX		CX	
CY		CY	
CZ		CZ	
DA		DA	
DB		DB	
DC		DC	
DD		DD	
DE		DE	
DF		DF	
DG		DG	
DH		DH	
DI		DI	
DJ		DJ	
DK		DK	
DL		DL	
DM		DM	
DN		DN	
DO		DO	
DP		DP	
DQ		DQ	
DR		DR	
DS		DS	
DT		DT	
DU		DU	
DV		DV	
DW		DW	
DX		DX	
DY		DY	
DZ		DZ	
EA		EA	
EB		EB	
EC		EC	
ED		ED	
EE		EE	
EF		EF	
EG		EG	
EH		EH	
EI		EI	
EJ		EJ	
EK		EK	
EL		EL	
EM		EM	
EN		EN	
EO		EO	
EP		EP	
EQ		EQ	

[illegible][illegible]

Officer (*Subchapter S*)

The income earned is similar to partnership income.

The claimant may receive income as compensation to officers and K-1 income reported on line 21 form 1120S.

The total income is reflected on the personal income tax return as wages and as net 1120S income on line 17 (schedule E), form 1040.



Form 1120S

Form 1120S U.S. Income Tax Return for an S Corporation (OMB No. 1545-0045) **2000**

Do not file this form unless the corporation has timely filed Form 943 to elect to be an S corporation. See separate instructions.

A Effective date of election as an S corporation: **12/31/00** **B** Fiscal year: **12/31/00** **C** Employer identification number: **12-3456789**

D Business code: **1234** **E** City or town, state, and ZIP code: **12345, CA 95001** **F** Total assets (see page 10): **123456789**

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Change in address (4) ☐ Amended return

H Enter number of shareholders in the corporation at end of the tax year: **10**

I Enter number of shareholders in the corporation at end of the tax year: **10**

1 Gross receipts or sales: **123456789** **2** Cost of goods sold (Schedule A, line 8): **123456789** **3** Gross profit. Subtract line 2 from line 1: **123456789** **4** Net gain (loss) from Form 4797, Part II, line 16 (attach Form 4797): **123456789** **5** Other income (loss) (attach schedule): **123456789** **6** Total income (loss). Combine lines 3 through 5: **123456789**

7 Compensation of officers: **123456789** **8** Salaries and wages (less employment credits): **123456789** **9** Repairs and maintenance: **123456789** **10** Bad debts: **123456789** **11** Rents: **123456789** **12** Taxes and licenses: **123456789** **13** Interest: **123456789** **14** Depreciation (if required, attach Form 4562): **123456789** **15** Depreciation claimed on Schedule A and elsewhere on return: **123456789** **16** Subtract line 15 from line 14: **123456789** **17** Depreciation (do not deduct oil and gas depletion): **123456789** **18** Advertising: **123456789** **19** Pension, profit sharing, etc., plans: **123456789** **20** Employee benefit programs: **123456789** **21** Other deductions (attach schedule): **123456789** **22** Total deductions. Add the amounts shown in lines 7 through 21: **123456789**

23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 6: **123456789**

24 Tax: a. Excess net passive income tax (attach schedule): **123456789** b. Tax from Schedule D (Form 1120D): **123456789** c. Add lines 23a and 23b (see page 15 of the instructions for additional rules): **123456789** **25** Payments: a. 2001 estimated tax payments and amount applied from 1999 return: **123456789** b. Tax deposited with Form 7064: **123456789** c. Credit for Federal tax paid on basis (attach Form 4130): **123456789** d. Add lines 25a through 25c: **123456789** **26** Estimated tax penalty. Check if Form 2220 is attached: **123456789** **27** Tax due. If the total of lines 23c and 24 is larger than line 25d, enter amount owed. See page 4 of the instructions for depositary method of payment: **123456789** **28** Overpayment. If line 25d is larger than the total of lines 23c and 24, enter amount overpaid: **123456789** **29** Enter amount of line 28 you want credited to 2001 estimated tax: **123456789**

Sign Here Signature of officer: **123456789** Date: **12/31/00** **Preparer's Use Only** Preparer's name: **123456789** Date: **12/31/00** Preparer's EIN or PIN: **123456789** Check a box: **123456789** Preparer's signature: **123456789** Date: **12/31/00** Preparer's EIN or PIN: **123456789**

For Paperwork Reduction Act Notice, see the separate instructions. Cite No. 1120S-0000 Form 1120S-0000

The income to the claimant/officer is reported as W-2 wages and reflected as compensation to officers.



This is reflected on line 12, form 1120 and on line 7, form 1040.

Form 1120

[illegible]

Passive Income vs. Earned Income



Earned Income



Earned income involves a ***material participation*** by the claimant in any particular business.

Material Participation is any activity in which the claimant participated for more than 500 hours in a given tax year.

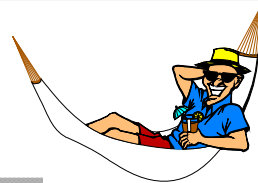
Earned Income (cont.)



There are IRS benefits derived from stating on a tax return that you materially participated in a business.

That being the case, those earnings are subject to and included in the disability benefit calculation.

Passive Income



This is income derived from participation as an investor.

Who is an investor?

One who reviews the financial statements of a business activity in a non-managerial capacity.

One who prepares analyses of the finances of the activity for his/her own use.

Analysis of the Federal Income Tax Return



Follow the Money



The basic audit procedure to follow in reviewing the tax return is to determine if the income reported to the IRS is consistent with the earnings information provided to the Insurance Company.

If the amounts appear to be consistent, review the return to determine if there are any indications of unreported income. Such as:

Is there significant growth in interest income reported each year?

Where is the money coming from?

Are there significant capital gains reported?

Where is the money coming from?

Are there significant increases in real estate taxes?
(are real estate assets being purchased?)

Where is the money coming from?

Are there significant decreases in interest expenses?
(is the mortgage being paid down?)

Where is the money coming from?



Dissect the Expenses

Review the business returns to examine the gross receipts and expenses.

How long has the company been in business?

Is the company consistently losing money? Why?

Are the expenses claimed offsetting the gross receipts reported?

What types of expenses are being claimed?



Excessive? Unreasonable?

If you believe the expenses are excessive you should request the business records and perform an audit.

Expenses not allowed or reduced will affect the net income.



If you establish that the net income is higher, the benefit amount should be reduced and if the higher net income exceeds the maximum percentage the claim can be terminated.

Fraud Issues/Schemes



Failure to Comply



If the claimant is requested to submit tax returns to verify proof of loss and fails to comply, it may indicate that the claimant has partial disability earnings that were not provided to the Insurance Company.



Never Mind...



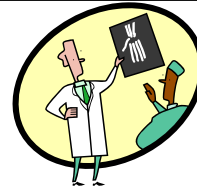
A claimant (CPA) received a letter requesting his tax returns. Subsequently, he contacted his claim manager.

He advised him that he “just” received a raise from his employer and no longer needed benefits. Therefore, he would not be submitting his tax returns.

A data base search revealed that the claimant was also the employer.

The claim was terminated

What's Up, Doc?



A claimant (physician) reported that he had received \$80,000.00 in wages from his company during the period January 1, through August 31, 1999.

The claimant's accountant stated that the claimant did not have reportable wages on or after September 1, 1999.

However, the claimant had net earnings of \$204,159.00 in 1999 from his 1120S corporation.

The corporate earnings together with his wages caused the claimant to exceed the maximum threshold under the policy and resulted in the termination of the claim.

April 10, 2000

To Whom It May Concern:

I am writing this letter at the request of Dr. [REDACTED] Based on review of the facts made known to by his payroll company, and the books of his Company, [REDACTED] MD, PA, I represent that Dr. [REDACTED] did not have reportable wages on or after September 1, 1999 to the date of this letter.

Please feel free to call me if you have any questions.

Sincerely,

Certified Public Accountants

U.S. K-1 Shareholder's Share of Income, Credits, Deductions, etc. OMB No. 1545-0047
 1999
 For calendar year 1996 or tax year 1996, and ending 1999

Shareholder's identifying number: **123456789** Corporation's identifying number: **987654321**
 Corporation's name, address, and ZIP code: **123 Main St, Austin, TX 78701**

A Shareholder's percentage of stock ownership for the year (see instructions for Schedule K-1) **100.00%**
 B Internal Revenue Service Center where corporation filed its return: **Austin, Texas**
 C Tax shelter registration number (see instructions for Schedule K-1): **None**
 D Check applicable income: ☒ (1) ☐ (2) ☐ (3) ☐ (4) ☐ (5) ☐ (6) ☐ (7) ☐ (8) ☐ (9) ☐ (10) ☐ (11) ☐ (12)

1996		(a) Amount	(b) From 1041 (see instructions for Schedule K-1)
1 Ordinary income (less) from trade or business activities	1	204,159	See Shareholder's Schedule K-1 (Form 1120S)
2 Net income (less) from rental real estate activities	2		See Shareholder's Schedule K-1 (Form 1120S)
3 Net income (less) from other rental activities	3		See Shareholder's Schedule K-1 (Form 1120S)
4 Portfolio income (less)	4		See Shareholder's Schedule K-1 (Form 1120S)
5 Dividend income (less)	5a	5	See Shareholder's Schedule K-1 (Form 1120S)
6 Capital gain income (less)	6a		See Shareholder's Schedule K-1 (Form 1120S)
7 Other income (less)	7		See Shareholder's Schedule K-1 (Form 1120S)
8 Total for part 1	8	204,159	See Shareholder's Schedule K-1 (Form 1120S)
9 Deductions (less)	9	19,000	See Shareholder's Schedule K-1 (Form 1120S)
10 Net income (less) from trade or business activities	10	185,159	See Shareholder's Schedule K-1 (Form 1120S)
11 Net income (less) from rental real estate activities	11		See Shareholder's Schedule K-1 (Form 1120S)
12 Net income (less) from other rental activities	12		See Shareholder's Schedule K-1 (Form 1120S)
13 Net income (less) from portfolio income	13		See Shareholder's Schedule K-1 (Form 1120S)
14 Net income (less) from dividend income	14		See Shareholder's Schedule K-1 (Form 1120S)
15 Net income (less) from capital gain income	15		See Shareholder's Schedule K-1 (Form 1120S)
16 Net income (less) from other income	16		See Shareholder's Schedule K-1 (Form 1120S)
17 Total for part 2	17	185,159	See Shareholder's Schedule K-1 (Form 1120S)
18 Credits (less)	18		See Shareholder's Schedule K-1 (Form 1120S)
19 Other credits	19		See Shareholder's Schedule K-1 (Form 1120S)

How did he manage that?

A claimant (physician) reported to his insurance company that he had not earned any income from his corporation in 1996.

His accountant said it was "as yet undetermined as to when he would be able to go back on the payroll".

They both failed to disclose \$100,000.00 in management fees paid to the claimant by his corporation which was reported as other income on his tax return.

The claim was terminated.



See

See

5 am FYE: 12/31/96

Form 1120, Page 1, Line 19 - Charitable Contributions

Description	Amount
Current Year Contributions	
Carryover From Prior Years	4.0
Total Contributions Available	4.0
Less Contributions Disallowed	0.0
Deduction Allowed in Current Year	\$ 4.0

Form 1120, Page 1, Line 26 - Other Deductions

Description	Amount
INSURANCE	\$ 13.0
TRAVEL & SEMINARS	1.3
MEDICAL SUPPLIES	13.8
LEGAL & ACCOUNTING	7.7
LAB & X-RAY	2.5
VEHICLE EXPENSE	9.5
OFFICE EXPENSE	2.7
POSTAGE	3.5
TELEPHONE & ANSWERING SERVICE	8.0
UTILITIES	4.5
EQUIPMENT RENTAL	1.0
DUES, SUBS & LICENSES	1.4
LINEN & UNIFORMS	1.1
MISCELLANEOUS	3
INSURANCE CLAIMS	5.9
COMPUTER SUPPORT	1.6
GIFTS	1.2
MEDICAL WASTE	1
TEMPORARY HELP	3.4
PETTY CASH EXPENSES	4
WATER	1
MANAGEMENT FEE	100.0
50% of Meals & Entertainment	2.3
	\$ 185.0

5 am FYE: 12/31/96 EIN: BBMI

J, Pg 3, Sch K, Question 5 - Did Entity Own 50% or More of Corp Stock

Name of Entity	EIN/SSN	Percent Owned
		100.0000
		100.0000

From Clerk to President

The claimant (CPA) advised his Insurance Company that his earnings were less than 20% of his pre-disability income.

A review of his tax returns revealed that the claimant's spouse (occupation:clerk) was the president of an 1120 S corporation. She reported \$157,386.00 in net earnings. She also owned a bookkeeping company earning \$39,328.00

The claimant was requested to provide the 1120S corporate return however he refused to comply.

The claim was terminated.



Form 1040 (1999)

Page 2

34 Amount from line 33 (adjusted gross income) 186,468

35 a Check if ☐ You were 65 or older, ☐ Blind: ☐ Spouse was 65 or older, ☐ Blind.

b If you are married filing separately and your spouse itemizes deductions or you were a dual-status alien, see page 20 and check here ☐ 30b ☐

36 Enter your itemized deductions from Schedule A, line 28. OR standard deduction shown on the left. But see page 20 to find your standard deduction if you checked. Any loss on line 36 or 37 or if itemized can claim you as a dependent.

37 Subtract line 36 from line 34. 30,255

38 If line 34 is less than or equal to \$10,000, see the worksheet on page 31 for the amount to enter. If line 34 is more than \$10,000, see the worksheet on page 31 for the amount to enter. 8,250

39 Taxable income. Subtract line 38 from line 37. 147,963

40 Tax (see page 31). Check if any tax is from: a ☐ Form 981 b ☐ Form 987 c ☐ Form 980

41 Credit for child and dependent care expenses. Attach Form 2441. 41

42 Credit for the elderly or the disabled. Attach Schedule R. 42

43 Child tax credit (see page 30). 43

44 Education credits. Attach Form 8859. 44

45 Adoption credit. Attach Form 8829. 45

46 Foreign tax credit. Attach Form 1118 if required. 46

47 Other credit. Check if from: a ☐ Form 3800 b ☐ Form 8306 c ☐ Form 8801 d ☐ From spouse. 47

48 Add lines 41 through 47. These are your total credits. 48

49 Subtract line 48 from line 40. If line 49 is more than line 40, enter ->. 37,184

50 Self-employment tax. Attach Form 6551. 50

51 Alternative minimum tax. Attach Form 6581. 51

52 Social security and Medicare tax on tip income not reported to employer. Attach Form 4137. 52

53 Tax on IRAs, other retirement plans, and IRAs. Attach Form 5320 if required. 53

54 Advance earned income credit payments from Form(s) W-2. 54

55 Household employment taxes. Attach Schedule H. 55

56 Add lines 49 through 55. This is your total tax. 42,708

57 Federal income tax withheld from Forms W-2 and 1099. 57

58 1999 estimated tax payments and amount applied from 1998 return. 58

59 a Earned income credit. Attach Form 8872. b If you have a qualifying child, enter: 59

60 Additional child tax credit. Attach Form 8812. 60

61 Amount paid with request for extension to file (see page 48). 61

62 Excess social security and Medicare tax withheld (see page 48). 62

63 Other payments. Check if from: a ☐ Form 5409 b ☐ Form 4136. 63

64 Add lines 57, 58, 59a, and 62 through 63. These are your total payments. 45,973

65 If line 64 is more than line 56, subtract line 56 from line 64. This is the amount you OVERPAID. 65

66a Amount of line 65 you want REFUNDED TO YOU. 66a

66b Amount of line 65 you want APPLIED TO 2000 ESTIMATED TAX. 66b

67 Amount of line 65 you want APPLIED TO 2000 ESTIMATED TAX. 1,927

68 If line 65 is more than line 64, subtract line 64 from line 65. This is the AMOUNT YOU OWE. For details on how to pay, see page 48. 68

69 Estimated tax penalty. Also include on line 68. 69

70 Your signature. 70

71 Spouse's signature, if a joint return, or preparer's signature. 71

72 Preparer's signature. 72

73 Preparer's name or firm name, address, and telephone number. 73

74 Preparer's SSN or PTIN. 74

75 Form 1040 (1999) 11779

SCHEDULE C-EZ
Net Profit From Business
(Sole Proprietorship)
OMB No. 1545-0046
1999
Attachment
Sequence No. 00A

Part I General Information

You May Use Schedule C-EZ instead of Schedule C: Only if You:

- Had business expenses of \$2,000 or less.
- Used the cash method of accounting.
- Did not have an inventory at any time during the year.
- Did not have a net loss from your business.
- Had only one business as a sole proprietor.

And You:

- Had no employees during the year.
- Are not required to file Form 465, Depreciation and amortization, for this business. See the instructions for Schedule C, line 13, on page C-3 to find out if you must file.
- Do not deduct expenses for business use of your home.
- Do not have prior year unallowed passive activity losses from this business.

A Principal business or profession, including product or service
BOOKS AND SERVICES

B Enter code from pages C-8.89 541219

C Business name. If no separate business name, leave blank.

D Employer ID no. (EIN), if any

E Business address (including suite or room no.). Address not required if same as on Form 1040, page 1.
City, town or post office, state, and ZIP code

Part II Figure Your Net Profit

1 Gross receipts. Caution: If the income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, use Statutory Employees in the instructions for Schedule C, line 1, on page C-2 and check here: ☐ 1 39,328

2 Total expenses. If more than \$2,000, you must use Schedule C. See instructions. ☐ 2

3 Net profit. Subtract line 2 from line 1. If less than zero, you must use Schedule C. Enter on Form 1040, line 12, and ALSO on Schedule SE, line 2. (Statutory employees do not report this amount on Schedule SE, line 2. Enter and check box on Form 1040, line 2.) ☐ 3 39,328

Part III Information on Your Vehicle. Complete this part ONLY if you are claiming car or truck expenses on line 2.

4 When did you place your vehicle in service for business purposes? (month, day, year) ☐

5 Of the total number of miles you drove your vehicle during 1999, enter the number of miles you used your vehicle for:

a Business ☐ b Commuting ☐ c Other ☐

6 Do you (or your spouse) have another vehicle available for personal use? ☐ Yes ☐ No

7 Was your vehicle available for use during off-duty hours? ☐ Yes ☐ No

8 a Do you have evidence to support your deduction? ☐ Yes ☐ No
b If "Yes," is the evidence written? ☐ Yes ☐ No

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule C-EZ (Form 1999) 19

Form 1040 1999
Your social security number
1999
Page 1

Part III Income or Loss From Partnerships and S Corporations. If you report an at-risk activity, you must check either column (a) or (b) on line 27 to describe your investment in the activity. See page E-6. If you check column (b), you must attach Form 6198.

27 a b c d e f g h i j k l m n o p q r s t u v w x y z

Part IV Income or Loss From Real Estate Mortgage Investment Conduits (REMICs) - Residual Holder

28 a b c d e f g h i j k l m n o p q r s t u v w x y z

Part V Summary

39 Net farm rental income or (loss) from Form 4835. Also, complete line 41 below.

40 TOTAL income or (loss) from Form 1040, line 17 ☐ 40 132,633

41 Reconciliation of Farming and Fishing Income. Enter your gross farming and fishing income reported on Form 4835, line 7, Schedule K-1 (Form 1065), line 15b, Schedule K-1 (Form 1120S), line 23, and Schedule K-1 (Form 1041), line 14 (see page E-6) ☐ 41

42 Reconciliation for Real Estate Professionals. If you were real estate professional (see pp. E-4), enter net income or (loss) you reported anywhere on Form 1040 from all rental real estate activities in which you materially participated under passive activity rules ☐ 42

Capital Gains Scheme



The claimant contacted his insurance company and asked if capital gains were used in the calculation for disability benefits.

The representative stated that only earned income was used and that capital gains were not included. A data base search revealed that the claimant had performed clinical studies for a medical research firm. The claimant was requested to provide his federal income tax returns.

He blacked out several stock transactions reporting significant taxable capital gains. The blacked out stock sales were in fact stock options awarded to the claimant.

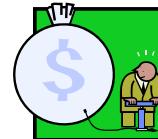
The stock options were offered to the claimant in lieu of cash to conceal his earnings. His claim was terminated.

Description of Property	Date Acquired	Date Sold	Sales Price	Cost or Basis	TTL	Gain or Loss
1249 ENDOCAPS	03/20/2000	01/22/2001	16671.	2438.		14173.
4000 UROLOGIX	02/07/2000	02/07/2001	75395.	16000.		59395.
100 AMDOCS	11/20/2000	09/07/2001	2958.	6082.		-3124.
4603 AMER GENWA/RI/ODS	07/16/2001		33926.	35845.		-1919.
300 CALPINE WA/RI/ODS	09/07/2001		8794.	13682.		-4888.
200 CITIGROUPWA/RI/ODS	09/07/2001		8517.	10821.		-2304.
1000 EDEN RICHWA/RI/ODS	05/26/2001		8317.	17285.		-8968.
200 JP MORGANWA/RI/ODS	09/07/2001		7097.	10548.		-3451.
100 JABIL	11/21/2000	09/07/2001	1798.	4527.		-2729.
2555 JANUS FINWA/RI/ODS	09/07/2001		62360.	96871.		-34511.
2582 JANUS MCWA/RI/ODS	09/07/2001		50811.	57941.		-7130.
500 NEXTEL	05/04/2001	05/15/2001	7102.	9938.		-2836.
1000 TARANTINO	07/21/2000	05/19/2001	1668.	4630.		-3022.
10000 UROLOGIX	02/23/2001	02/23/2001	199391.	36250.		163141.
10000 UROLOGIX	03/01/2001	03/01/2001	184391.	40000.		144391.
6000 UROLOGIX	04/30/2001	04/30/2001	145223.	24000.		121223.
300 UROLOGIX	05/31/2001	05/31/2001	72475.	11600.		60875.
1500 UROLOGIX	05/31/2001	05/31/2001	33814.	5438.		28476.
3200 UROLOGIX	05/31/2001	05/31/2001	6801.	1087.		5714.
100 VERITAS	06/27/2001	08/17/2001	3112.	6591.		-3479.
			950721.	411694.		539027.

Hyping Expenses Scheme

The claimant (CPA) soon after his disability formed an 1120S corporation.

He owned the building and paid himself rentals which were five times greater than his reported monthly salary.



Court cases have held that material participation in a business causes rentals to be considered earnings and subject to self-employment tax.

Therefore, the claimant had additional earnings, (passive v. active) which exceeded policy limitations.

1120S		U.S. Income Tax Return for an S Corporation		1998	
Department of the Treasury Internal Revenue Service		Do not file this form unless the corporation has timely filed Form 1041 to avoid the tax on S corporation.		OMB No. 1545-0047	
For calendar year 1998, or tax year beginning 1998, ending		1998		1998	
1 Enter date of election as S corporation		2 Enter date of termination		3 Enter date of termination	
1/01/97				1/01/97	
4 Enter tax year for which return is filed		5 Enter tax year for which return is filed		6 Enter tax year for which return is filed	
541211				14,822	
7 Check applicable boxes: (1) Initial return (2) First return (3) Change in address (4) Amended return					
8 Enter number of shareholders		9 Enter number of shareholders		10 Enter number of shareholders	
11 Enter number of shareholders		12 Enter number of shareholders		13 Enter number of shareholders	
14 Enter number of shareholders		15 Enter number of shareholders		16 Enter number of shareholders	
17 Enter number of shareholders		18 Enter number of shareholders		19 Enter number of shareholders	
20 Enter number of shareholders		21 Enter number of shareholders		22 Enter number of shareholders	
23 Enter number of shareholders		24 Enter number of shareholders		25 Enter number of shareholders	
26 Enter number of shareholders		27 Enter number of shareholders		28 Enter number of shareholders	
29 Enter number of shareholders		30 Enter number of shareholders		31 Enter number of shareholders	
32 Enter number of shareholders		33 Enter number of shareholders		34 Enter number of shareholders	
35 Enter number of shareholders		36 Enter number of shareholders		37 Enter number of shareholders	
38 Enter number of shareholders		39 Enter number of shareholders		40 Enter number of shareholders	
41 Enter number of shareholders		42 Enter number of shareholders		43 Enter number of shareholders	
44 Enter number of shareholders		45 Enter number of shareholders		46 Enter number of shareholders	
47 Enter number of shareholders		48 Enter number of shareholders		49 Enter number of shareholders	
50 Enter number of shareholders		51 Enter number of shareholders		52 Enter number of shareholders	
53 Enter number of shareholders		54 Enter number of shareholders		55 Enter number of shareholders	
56 Enter number of shareholders		57 Enter number of shareholders		58 Enter number of shareholders	
59 Enter number of shareholders		60 Enter number of shareholders		61 Enter number of shareholders	
62 Enter number of shareholders		63 Enter number of shareholders		64 Enter number of shareholders	
65 Enter number of shareholders		66 Enter number of shareholders		67 Enter number of shareholders	
68 Enter number of shareholders		69 Enter number of shareholders		70 Enter number of shareholders	
71 Enter number of shareholders		72 Enter number of shareholders		73 Enter number of shareholders	
74 Enter number of shareholders		75 Enter number of shareholders		76 Enter number of shareholders	
77 Enter number of shareholders		78 Enter number of shareholders		79 Enter number of shareholders	
80 Enter number of shareholders		81 Enter number of shareholders		82 Enter number of shareholders	
83 Enter number of shareholders		84 Enter number of shareholders		85 Enter number of shareholders	
86 Enter number of shareholders		87 Enter number of shareholders		88 Enter number of shareholders	
89 Enter number of shareholders		90 Enter number of shareholders		91 Enter number of shareholders	
92 Enter number of shareholders		93 Enter number of shareholders		94 Enter number of shareholders	
95 Enter number of shareholders		96 Enter number of shareholders		97 Enter number of shareholders	
98 Enter number of shareholders		99 Enter number of shareholders		100 Enter number of shareholders	

Schedule E
Form 1040

Supplemental Income and Loss
(From rental real estate, royalties, partnerships, S corporations, estates, trusts, REMICs, etc.)

OMB No. 1545-0047
1998
Attachment 13

Amount of the Treasury Department's estimate of the tax liability of the taxpayer for the year 1998

Part I **Income or Loss From Rental Real Estate and Royalties** Note: Report income and expenses from your business of renting personal property on Schedule C or C-92 (see page E-1). Report form rental income or loss from Form 4828 on page 2, line 26.

Show the kind and location of each rental real estate property:
1. ELCA CONSTRUCTION, ELCA, BOOTH HENRY

2. For each rental real estate property listed on line 1, did you or your family use it during the tax year for personal purposes for more than the greater of:
a. 14 days, or
b. 10% of the total days rented at fair rental value?
(See page E-1.)

	Property			Total
	A	B	C	(Add columns A, B, & C)
1. Rents received	48,000	15,600		63,600
2. Royalties received				
3. Advertising				
4. Auto and travel (see page E-2)				
5. Cleaning and maintenance				
6. Commissions				
7. Insurance				
8. Legal and other professional fees				
9. Management fees	7,073	1,553		8,626
10. Mortgage interest paid to banks, etc. (see page E-4)		1,828		
11. Other interest				
12. Repairs				
13. Supplies				
14. Taxes				
15. Utilities				
16. Depreciation expense or depletion (see page E-3)				
17. Total expenses. Add lines 10 and 20	7,073	3,381		10,454
18. Add lines 1 through 17				53,146
19. Income (loss) from rental real estate or royalty property. Subtract line 17 from line 18 (if result is (loss), see page E-3 to find out if you must file Form 998)	37,546	11,156		48,702
20. Deductible rental real estate loss. (See page E-4 to find out if you can deduct the loss. If not, see page E-4 to find out if you must file Form 998)				
21. Income. Add positive amounts shown on line 20. Do not include any losses				48,702
22. Losses. Add royalty losses from line 22 and rental real estate losses from line 23. Enter the total loss here. If Parts II, III, IV, and line 26 on page 2 do not apply to you, also enter this amount on Form 1040, line 17. Otherwise, include this amount in the total on line 40 on page 2				

Smooth Operator



A claimant (physician) owned a Schedule C medical practice and also owned an inactive corporation that had provided medical services.

The inactive corporation had a significant ongoing net operating loss.

The review of the Schedule C filings by the claimant revealed that the claimant was deducting "expenses paid to others" almost equal to his gross receipts.

A review of his corporate returns revealed that the claimant was reporting consulting income equal to the amounts deducted as "expenses paid to others" on his Schedule C.

75453
SCHEDULE C
(Form 1984)

Profit or Loss From Business
(Sole Proprietorship)

OMB No. 1545-0047
1988
Department of the Treasury
Internal Revenue Service

Partnerships, joint ventures, etc., must file Form 1065 or Form 1065-B.
Adjust to Form 1065 or Form 1065-B.
See instructions for Schedule C (Form 1984).

Abatement
OMB No. 1545-0047

Name of proprietor
Social security number (SSN)

A Principal business or profession, including product or service (see page C-1)
Medical Service

B Enter RST code from pages C-4 & 5
621111

C Business name. If no separate business name, leave blank.

D Employer ID number (EIN), if any

E Business address (including suite or room no.)
City, town or post office, state, and ZIP code

F Accounting method: (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify)

G Did you "materially participate" in the operation of this business during 1988? If "Yes," see page C-2 for limit on losses.
Yes ☒ No ☐

H If you started or acquired this business during 1988, check here

Part I Income

1 Gross receipts or sales. Caution: If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-2 and check here

2 Returns and allowances

3 Subtract line 2 from line 1

4 Cost of goods sold (from line 42 on page 2)

5 Gross profit. Subtract line 4 from line 3

6 Other income, including Federal & state gasoline or fuel tax credit or ref. (see page C-2). See Stat 2

7 Gross income. Add lines 5 and 6

Part II Deductions. Enter expenses for business use of your home only on line 30.

8 Advertising

9 Rent or lease from sales or services (see page C-3)

10 Car and truck expenses (see page C-3)

11 Commissions and fees

12 Depreciation

13 Depreciation and section 179 expense deduction not included in Part III (see page C-4)

14 Employee benefit programs (other than on line 19)

15 Insurance (other than health)

16 Interest

17 Mortgage (paid to banks, etc.)

18 Other

19 Legal and professional services

20 Office expenses

21 Pension and profit-sharing plans

22 Rent or lease (see page C-3)

23 Vehicle, maintenance, and equipment

24 Other business property

25 Repairs and maintenance

26 Supplies (not included in Part III)

27 Taxes and licenses

28 Travel, meals, and entertainment

29 Travel

30 Meals and entertainment

31 Enter 50% of net profit or loss from line 30, 31, 32, and 33 on Schedule SE, line 2 (statutory employees, see page C-2). Enter and attach to Schedule C (Form 1984), line 2.

32 If you have a loss, check the box that describes your investment in this activity (see page C-5).
If you checked 32a, enter the loss on Form 1041, line 15, and ALSO on Schedule SE, line 2 (statutory employees, see page C-5). Enter and attach to Schedule C (Form 1984), line 2.
If a loss, you MUST go on to line 32.
If you checked 32b, you MUST attach Form 1041.

33 Total expenses. Before expenses for business use of home. Add lines 8 through 32 to line 7

34 Total expenses. Add lines 7 and 33

35 Net profit or (loss). Subtract line 34 from line 33

36 If a profit, enter on Form 1040, line 12, and ALSO on Schedule SE, line 2 (statutory employees, see page C-5). Enter and attach to Schedule C (Form 1984), line 2.
If a loss, you MUST go on to line 32.

37 If you have a loss, check the box that describes your investment in this activity (see page C-5).
If you checked 37a, enter the loss on Form 1041, line 15, and ALSO on Schedule SE, line 2 (statutory employees, see page C-5). Enter and attach to Schedule C (Form 1984), line 2.
If a loss, you MUST go on to line 32.
If you checked 37b, you MUST attach Form 1041.

38 Total other expenses. Enter here and on page 1, line 27

39 Total other expenses. Enter here and on page 1, line 27

40 Total other expenses. Enter here and on page 1, line 27

41 Total other expenses. Enter here and on page 1, line 27

42 Total other expenses. Enter here and on page 1, line 27

43 Total other expenses. Enter here and on page 1, line 27

44 Total other expenses. Enter here and on page 1, line 27

45 Total other expenses. Enter here and on page 1, line 27

46 Total other expenses. Enter here and on page 1, line 27

47 Total other expenses. Enter here and on page 1, line 27

48 Total other expenses. Enter here and on page 1, line 27

49 Total other expenses. Enter here and on page 1, line 27

50 Total other expenses. Enter here and on page 1, line 27

51 Total other expenses. Enter here and on page 1, line 27

52 Total other expenses. Enter here and on page 1, line 27

53 Total other expenses. Enter here and on page 1, line 27

54 Total other expenses. Enter here and on page 1, line 27

55 Total other expenses. Enter here and on page 1, line 27

56 Total other expenses. Enter here and on page 1, line 27

57 Total other expenses. Enter here and on page 1, line 27

58 Total other expenses. Enter here and on page 1, line 27

59 Total other expenses. Enter here and on page 1, line 27

60 Total other expenses. Enter here and on page 1, line 27

61 Total other expenses. Enter here and on page 1, line 27

62 Total other expenses. Enter here and on page 1, line 27

63 Total other expenses. Enter here and on page 1, line 27

64 Total other expenses. Enter here and on page 1, line 27

65 Total other expenses. Enter here and on page 1, line 27

66 Total other expenses. Enter here and on page 1, line 27

67 Total other expenses. Enter here and on page 1, line 27

68 Total other expenses. Enter here and on page 1, line 27

69 Total other expenses. Enter here and on page 1, line 27

70 Total other expenses. Enter here and on page 1, line 27

71 Total other expenses. Enter here and on page 1, line 27

72 Total other expenses. Enter here and on page 1, line 27

73 Total other expenses. Enter here and on page 1, line 27

74 Total other expenses. Enter here and on page 1, line 27

75 Total other expenses. Enter here and on page 1, line 27

76 Total other expenses. Enter here and on page 1, line 27

77 Total other expenses. Enter here and on page 1, line 27

78 Total other expenses. Enter here and on page 1, line 27

79 Total other expenses. Enter here and on page 1, line 27

80 Total other expenses. Enter here and on page 1, line 27

81 Total other expenses. Enter here and on page 1, line 27

82 Total other expenses. Enter here and on page 1, line 27

83 Total other expenses. Enter here and on page 1, line 27

84 Total other expenses. Enter here and on page 1, line 27

85 Total other expenses. Enter here and on page 1, line 27

86 Total other expenses. Enter here and on page 1, line 27

87 Total other expenses. Enter here and on page 1, line 27

88 Total other expenses. Enter here and on page 1, line 27

89 Total other expenses. Enter here and on page 1, line 27

90 Total other expenses. Enter here and on page 1, line 27

91 Total other expenses. Enter here and on page 1, line 27

92 Total other expenses. Enter here and on page 1, line 27

93 Total other expenses. Enter here and on page 1, line 27

94 Total other expenses. Enter here and on page 1, line 27

95 Total other expenses. Enter here and on page 1, line 27

96 Total other expenses. Enter here and on page 1, line 27

97 Total other expenses. Enter here and on page 1, line 27

98 Total other expenses. Enter here and on page 1, line 27

99 Total other expenses. Enter here and on page 1, line 27

100 Total other expenses. Enter here and on page 1, line 27

75453
Schedule C (Form 1984) 1988 Medical Service

Part III Cost of Goods Sold (see page C-3)

33 Method(s) used to value closing inventory: a ☐ Cost b ☐ Lower of cost or market c ☐ Other (attach explanation)

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory? If "Yes," attach explanation

35 Inventory at beginning of year. If different from last year's closing inventory, attach explanation

36 Purchases less cost of items withdrawn for personal use

37 Cost of labor. Do not include any amounts paid to yourself

38 Materials and supplies

39 Other costs

40 Add lines 35 through 39

41 Inventory at end of year

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4

43 When did you place your vehicle in service for business purposes? (month, day, year)

44 Of the total number of miles you drove your vehicle during 1988, enter the number of miles you used your vehicle for:
a Business b Commuting c Other

45 Do you (or your spouse) have another vehicle available for personal use?

46 Was your vehicle available for use during off-duty hours?

47 Do you have evidence to support your deduction?

48 If "Yes," is the evidence sufficient?

49 Other expenses. List below business expenses not included on lines 8-30 or line 36.
Expense paid to others

50 Total other expenses. Enter here and on page 1, line 27

51 Total other expenses. Enter here and on page 1, line 27

52 Total other expenses. Enter here and on page 1, line 27

53 Total other expenses. Enter here and on page 1, line 27

54 Total other expenses. Enter here and on page 1, line 27

55 Total other expenses. Enter here and on page 1, line 27

56 Total other expenses. Enter here and on page 1, line 27

57 Total other expenses. Enter here and on page 1, line 27

58 Total other expenses. Enter here and on page 1, line 27

59 Total other expenses. Enter here and on page 1, line 27

60 Total other expenses. Enter here and on page 1, line 27

61 Total other expenses. Enter here and on page 1, line 27

62 Total other expenses. Enter here and on page 1, line 27

63 Total other expenses. Enter here and on page 1, line 27

64 Total other expenses. Enter here and on page 1, line 27

65 Total other expenses. Enter here and on page 1, line 27

66 Total other expenses. Enter here and on page 1, line 27

67 Total other expenses. Enter here and on page 1, line 27

68 Total other expenses. Enter here and on page 1, line 27

69 Total other expenses. Enter here and on page 1, line 27

70 Total other expenses. Enter here and on page 1, line 27

71 Total other expenses. Enter here and on page 1, line 27

72 Total other expenses. Enter here and on page 1, line 27

73 Total other expenses. Enter here and on page 1, line 27

74 Total other expenses. Enter here and on page 1, line 27

75 Total other expenses. Enter here and on page 1, line 27

76 Total other expenses. Enter here and on page 1, line 27

77 Total other expenses. Enter here and on page 1, line 27

78 Total other expenses. Enter here and on page 1, line 27

79 Total other expenses. Enter here and on page 1, line 27

80 Total other expenses. Enter here and on page 1, line 27

81 Total other expenses. Enter here and on page 1, line 27

82 Total other expenses. Enter here and on page 1, line 27

83 Total other expenses. Enter here and on page 1, line 27

84 Total other expenses. Enter here and on page 1, line 27

85 Total other expenses. Enter here and on page 1, line 27

86 Total other expenses. Enter here and on page 1, line 27

87 Total other expenses. Enter here and on page 1, line 27

88 Total other expenses. Enter here and on page 1, line 27

89 Total other expenses. Enter here and on page 1, line 27

90 Total other expenses. Enter here and on page 1, line 27

91 Total other expenses. Enter here and on page 1, line 27

92 Total other expenses. Enter here and on page 1, line 27

93 Total other expenses. Enter here and on page 1, line 27

94 Total other expenses. Enter here and on page 1, line 27

95 Total other expenses. Enter here and on page 1, line 27

96 Total other expenses. Enter here and on page 1, line 27

97 Total other expenses. Enter here and on page 1, line 27

98 Total other expenses. Enter here and on page 1, line 27

99 Total other expenses. Enter here and on page 1, line 27

100 Total other expenses. Enter here and on page 1, line 27

Pre-Disability Fraud

- Client submits income certification form from employer
- Employer is the claimant who is self employed
- He reported \$50,000.00 in salary

PRINTERS' DISABILITY TRUST
CLAIM VERIFICATION FORM
CONTROL NUMBER: -

PRINTED 07/22/2002

CASE INFORMATION:
CASE NUMBER :
CASE NAME & ADDRESS:

CONTACT:
PHONE NUMBER:

CASE EFFECTIVE: 01-01-1993
TERMINATION DATE: -
NUMBER OF EMPLOYEES: 1
% PAID BY EMPLOYER: 100%
CASE PAID-TO-DATE: CURRENT
MAX COVERED SALARY: \$10000 Per Month

EMPLOYEE INFORMATION:
CERTIFICATE NUMBER: 0001
SOCIAL SECURITY NO.: -
EMPLOYEE NAME:
EMPLOYEE EFFECTIVE: 01-01-1993
TERMINATION DATE: -
EMPLOYEE SALARY: \$50,000. Annually
COVERAGE PLAN: 90 DAY LTD

ADDITIONAL INFORMATION:
REMARKS:

Prepared by : -
Please call : - if you have any questions.

[illegible]

NOL CARRYBACK STATEMENT

NOL Statement
Election to Retain Carryback Period

The above named taxpayer incurred a net operating loss in the taxable year ending December 31, 2002 and is entitled to a five-year carryback period with respect to that loss under Code Section 172(b) (1) of the Internal Revenue Code.

Pursuant to Code Section 172(b) (3), the taxpayer hereby elects to retain the carryback period with respect to the net operating loss incurred in the taxable year ending December 31, 2002.

Taxpayer's Signature: _____ Date: _____
 Spouse's Signature: _____ Date: _____

Department of the Treasury — Internal Revenue Service
Form 1040 U.S. Individual Income Tax Return 2001

Use the label, name, address, and Social Security number of the taxpayer and spouse or partner on this return.

1 Filing Status: ☒ Single ☐ Married filing jointly (even if only one had income) ☐ Head of household (see instructions) ☐ Qualifying widow(er) with dependent child (see instructions)

2 Dependents: If more than six dependents, see instructions. (If dependent's name, last name, first name, and date of birth are the same as the taxpayer's, enter "same as taxpayer").

3 Total number of dependents claimed: **1**

4 Income: **7** Wages, salaries, tips, etc. (attach Form W-2) **8** Taxable interest (see instructions) **9** Tax-exempt interest (do not include on line 8a) **10** Ordinary dividends (see instructions) **11** Dividend capital gain (see instructions) **12** Dividend ordinary loss (see instructions) **13** Dividend capital loss (see instructions) **14** Dividend ordinary gain (see instructions) **15** Dividend capital gain (see instructions) **16** Dividend capital loss (see instructions) **17** Dividend ordinary gain (see instructions) **18** Dividend capital gain (see instructions) **19** Dividend capital loss (see instructions) **20** Dividend ordinary gain (see instructions) **21** Dividend capital gain (see instructions) **22** Dividend capital loss (see instructions) **23** Dividend ordinary gain (see instructions) **24** Dividend capital gain (see instructions) **25** Dividend capital loss (see instructions) **26** Dividend ordinary gain (see instructions) **27** Dividend capital gain (see instructions) **28** Dividend capital loss (see instructions) **29** Dividend ordinary gain (see instructions) **30** Dividend capital gain (see instructions) **31** Dividend capital loss (see instructions) **32** Dividend ordinary gain (see instructions) **33** Dividend capital gain (see instructions) **34** Dividend capital loss (see instructions) **35** Dividend ordinary gain (see instructions) **36** Dividend capital gain (see instructions) **37** Dividend capital loss (see instructions) **38** Dividend ordinary gain (see instructions) **39** Dividend capital gain (see instructions) **40** Dividend capital loss (see instructions) **41** Dividend ordinary gain (see instructions) **42** Dividend capital gain (see instructions) **43** Dividend capital loss (see instructions) **44** Dividend ordinary gain (see instructions) **45** Dividend capital gain (see instructions) **46** Dividend capital loss (see instructions) **47** Dividend ordinary gain (see instructions) **48** Dividend capital gain (see instructions) **49** Dividend capital loss (see instructions) **50** Dividend ordinary gain (see instructions) **51** Dividend capital gain (see instructions) **52** Dividend capital loss (see instructions) **53** Dividend ordinary gain (see instructions) **54** Dividend capital gain (see instructions) **55** Dividend capital loss (see instructions) **56** Dividend ordinary gain (see instructions) **57** Dividend capital gain (see instructions) **58** Dividend capital loss (see instructions) **59** Dividend ordinary gain (see instructions) **60** Dividend capital gain (see instructions) **61** Dividend capital loss (see instructions) **62** Dividend ordinary gain (see instructions) **63** Dividend capital gain (see instructions) **64** Dividend capital loss (see instructions) **65** Dividend ordinary gain (see instructions) **66** Dividend capital gain (see instructions) **67** Dividend capital loss (see instructions) **68** Dividend ordinary gain (see instructions) **69** Dividend capital gain (see instructions) **70** Dividend capital loss (see instructions) **71** Dividend ordinary gain (see instructions) **72** Dividend capital gain (see instructions) **73** Dividend capital loss (see instructions) **74** Dividend ordinary gain (see instructions) **75** Dividend capital gain (see instructions) **76** Dividend capital loss (see instructions) **77** Dividend ordinary gain (see instructions) **78** Dividend capital gain (see instructions) **79** Dividend capital loss (see instructions) **80** Dividend ordinary gain (see instructions) **81** Dividend capital gain (see instructions) **82** Dividend capital loss (see instructions) **83** Dividend ordinary gain (see instructions) **84** Dividend capital gain (see instructions) **85** Dividend capital loss (see instructions) **86** Dividend ordinary gain (see instructions) **87** Dividend capital gain (see instructions) **88** Dividend capital loss (see instructions) **89** Dividend ordinary gain (see instructions) **90** Dividend capital gain (see instructions) **91** Dividend capital loss (see instructions) **92** Dividend ordinary gain (see instructions) **93** Dividend capital gain (see instructions) **94** Dividend capital loss (see instructions) **95** Dividend ordinary gain (see instructions) **96** Dividend capital gain (see instructions) **97** Dividend capital loss (see instructions) **98** Dividend ordinary gain (see instructions) **99** Dividend capital gain (see instructions) **100** Dividend capital loss (see instructions)

1
SCHEDULE C
(Form 1040)
Department of the Treasury
Internal Revenue Service (IRS)

Profit or Loss From Business
(Sole Proprietorship)
Partnerships, joint ventures, etc., must file Form 1065 or Form 1065-B.
Attach to Form 1040 or Form 1041.
See Instructions for Schedule C (Form 1040).

OMB No. 1545-0047
2001
Attachment
Sequence No. 09

Name of proprietor
Principal business or profession, including product or service (see the instructions)
Business name, if the separate business name, have stock.
Accounting method (1) ☒ Cash (2) ☐ Accrual (3) ☐ Other (specify) _____
Did you "materially participate" in the operation of the business during 2001? If "No," see instructions for line 28.
If you started or acquired this business during 2001, check here: ☐ Yes ☐ No

134,763
133,502
84,682
46,820
14,072
62,892

Part III Expenses. Enter expenses for business use of your home only on line 28.
19
20
21
22
23
24
25
26
27
28
29
30
31
32

For Paperwork Reduction Act Notice, see Form 1040 Instructions. Schedule C (Form 1040) 2001

NOL CARRYBACK STATEMENT

NOL Statement
Election to Refund Loss Carryback Period

The above named taxpayer incurred a net operating loss in the taxable year ending December 31, 2001 and is entitled to a two-year carryback period with respect to that loss under Code Section 171(b) (1) of the Internal Revenue Code.

Pursuant to Code Section 171(b) (2), the taxpayer hereby elects to refund the entire carryback period with respect to the net operating loss incurred in the taxable year ending December 31, 2001.

Taxpayer Signature _____ Date _____
Spouse Signature _____ Date _____

Audited Tax Returns May Reveal Activity



The Insurance Agent



A prior investigation revealed that the claimant was receiving income from other insurance companies.

The claim was not terminated because the claimant stated that the income from the other insurance companies was from referrals he made for his clients on existing policies.

He stated that he had 35 clients and that he only provided administrative services.

A subsequent investigation was initiated and the claimant's tax returns were requested.

Form 1041-1 (Page 1041) 1995 Page 2

Part III Cost of Goods Sold

33 Method(s) used to value closing inventory: ☐ Cost ☐ Lower of cost or market ☐ Other (attach explanation)
 If "Yes," attach explanation ☐ Yes ☐ No

34 Was there any change in determining quantities, costs, or valuations between opening and closing inventory?
 If "Yes," attach explanation ☐ Yes ☐ No

35 Inventory at beginning of year, if different from last year's closing inventory, attach explanation 35

36 Purchases less cost of items withdrawn for personal use 36

37 Cost of labor. Do not include salary paid to yourself 37

38 Materials and supplies 38

39 Other costs 39

40 Add lines 35 through 39 40

41 Inventory at end of year 41

42 Cost of goods sold. Subtract line 41 from line 40. Enter the result here and on page 1, line 4 42

Part IV Information on Your Vehicle. Complete the part only if you are claiming car or truck expenses on line 10 and are not required to file Form 4562 for this business. See the instructions for line 10 to find out if you must file.

43 When did you place your vehicle in service for business purposes? (month, day, year) 01/09/92

44 Of the total number of miles you drove your vehicle during 1995, enter the number of miles you used your vehicle for:
 a Business 49,209 b Commuting 9 c Other 38,309

45 Do you (or your spouse) have another vehicle available for personal use? ☒ Yes ☐ No

46 Was your vehicle available for use during off-duty hours? ☒ Yes ☐ No

47 a Do you have evidence to support your deduction? ☒ Yes ☐ No
 b If "Yes," is the evidence written? ☒ Yes ☐ No

Part V Other Expenses. List below business expenses not included on lines 8-36 or line 38.

MAILING	14,529
FILES AND CORRESPONDENCE	4,076
TOLLS	2,850
MEETINGS	3,752
BUSINESS DINNERS	1,751
SOFTWARE & PROGRAMS FOR COMPUTER	2,974
BROKERS FEES & BROKING	1,930
PROFESSIONAL DUES & CHAMBER FEE	3,310
MISC. EXP.	1,825
48 Total other expenses. Enter here and on page 1, line 27	36,756

FD-1041-1 (10/95)



The Landscaper



The claimant, a former insurance agent, who left employment due to depression, was investigated because surveillance revealed that he was working as a landscaper.

The claimant was interviewed and denied that he had any employment.

The claimant's personal and business tax returns were requested. It had been ascertained from a database search that the claimant was, in fact, the owner of a landscaping business. The claimant did not comply and failed to produce the returns.
 (next)

The Landscaper (cont.)



His benefits were suspended.

Subsequently, he provided his personal tax returns; however, there was no income or loss for a landscaping business.

The claimant's benefits were suspended a second time and he was requested to complete IRS form 4506. The claimant complied and a transcript was obtained.

The transcript revealed that the claimant had reported his landscaping business to the IRS. The transcript revealed that the claimant reported losses for his business for each year.

The Landscaper (cont.)

Therefore, the claim could not be terminated based on earnings.

It was decided that the business records of the company would be requested. The audit revealed that the claimant could not verify a substantial portion of the expenses claimed.



This caused his net earnings to exceed policy limits. However, this was insufficient to terminate the claim because he was disabled from his own occupation as a manager.



He had at least 80 customers and maintained the books and records for his company.

The claimant's activities as owner and president of a landscaping business were incompatible with his annual claimant statements that he could not "be around people", "had an inability to concentrate" and "usually avoided outside contact", which rendered him unable to perform in a managerial capacity. The claim was terminated.

41



INTERNAL REVENUE SERVICE

Department of the Treasury

Tax Return Listing

Page: 1

Taxpayer Identification Number: 1
Tax Period: December 31, 1998
Filing Status: Married filing joint
Exemptions: 5

Form 1040		Line 44	Line 45	
Line 1	WAGES	48,257	Line 46 TOTAL PAYMENTS	8,885.00
Line 2	TAXABLE INTEREST: SCH B	134	Line 46a REFUND AMOUNT	3,039.00
Line 3	TAX-EXEMPT INTEREST	0	Line 47 APPLIED TO OVERESTIMATED TAX	0.00
Line 4	DIVIDEND INCOME: SCH B	0	Line 48 AMOUNT YOU OWE	8.00
Line 5	REPLACEMENT OF RETIREMENT SAVINGS	0	Line 49 ESTIMATED TAX PAYMENT	0.00
Schedule A				
Line 1	MEDICAL AND DENTAL EXPENSES	439		
Line 4	NET MEDICAL DEDUCTION	0		
Line 5	STATE AND LOCAL INCOME TAXES	0		
Line 6	REAL ESTATE TAXES	3,037		
Line 7	TOTAL TAXES	5,077		
Line 8	NET INVESTMENT INCOME (FINANCIAL)	0		
Line 9	MORTGAGE INTEREST (FINANCIAL)	0		
Line 10	DEDUCTIBLE POINTS	0		
Line 11	DEDUCTIBLE INVESTMENT INTEREST	0		
Line 12	TOTAL INTEREST DEDUCTION	8,875		
Line 13	OTHER THAN CARRY-FORWARD	3,030		
Line 14	CARRIED OVER FROM PRIOR YEAR	0		
Line 15	TOTAL CONTRIBUTIONS	3,225		
Line 16	NET LIMITED MEDICAL EXPENSES	0		
Line 17	OTHER TAXABLE AMOUNT	0		
Line 18	OTHER TAXABLE AMOUNT	0		
Line 19	OTHER TAXABLE AMOUNT	0		
Line 20	TOTAL TAXABLE AMOUNT	17,072.00		
Schedule C				
Line 1	ADDITIONAL FORM 1040 NET INCOME	0		
Line 2	ADDITIONAL FORM 1040 NET INCOME	0		
Line 3	ADDITIONAL FORM 1040 NET INCOME	0		
Line 4	ADDITIONAL FORM 1040 NET INCOME	0		
Line 5	ADDITIONAL FORM 1040 NET INCOME	0		
Line 6	ADDITIONAL FORM 1040 NET INCOME	0		
Line 7	ADDITIONAL FORM 1040 NET INCOME	0		
Line 8	ADDITIONAL FORM 1040 NET INCOME	0		
Line 9	ADDITIONAL FORM 1040 NET INCOME	0		
Line 10	ADDITIONAL FORM 1040 NET INCOME	0		
Line 11	ADDITIONAL FORM 1040 NET INCOME	0		
Line 12	ADDITIONAL FORM 1040 NET INCOME	0		
Line 13	ADDITIONAL FORM 1040 NET INCOME	0		
Line 14	ADDITIONAL FORM 1040 NET INCOME	0		
Line 15	ADDITIONAL FORM 1040 NET INCOME	0		
Line 16	ADDITIONAL FORM 1040 NET INCOME	0		
Line 17	ADDITIONAL FORM 1040 NET INCOME	0		
Line 18	ADDITIONAL FORM 1040 NET INCOME	0		
Line 19	ADDITIONAL FORM 1040 NET INCOME	0		
Line 20	ADDITIONAL FORM 1040 NET INCOME	0		
Line 21	ADDITIONAL FORM 1040 NET INCOME	0		
Line 22	ADDITIONAL FORM 1040 NET INCOME	0		
Line 23	ADDITIONAL FORM 1040 NET INCOME	0		
Line 24	ADDITIONAL FORM 1040 NET INCOME	0		
Line 25	ADDITIONAL FORM 1040 NET INCOME	0		
Line 26	ADDITIONAL FORM 1040 NET INCOME	0		
Line 27	ADDITIONAL FORM 1040 NET INCOME	0		
Line 28	ADDITIONAL FORM 1040 NET INCOME	0		
Line 29	ADDITIONAL FORM 1040 NET INCOME	0		
Line 30	ADDITIONAL FORM 1040 NET INCOME	0		
Line 31	ADDITIONAL FORM 1040 NET INCOME	0		
Line 32	ADDITIONAL FORM 1040 NET INCOME	0		
Line 33	ADDITIONAL FORM 1040 NET INCOME	0		
Line 34	ADDITIONAL FORM 1040 NET INCOME	0		
Line 35	ADDITIONAL FORM 1040 NET INCOME	0		
Line 36	ADDITIONAL FORM 1040 NET INCOME	0		
Line 37	ADDITIONAL FORM 1040 NET INCOME	0		
Line 38	ADDITIONAL FORM 1040 NET INCOME	0		
Line 39	ADDITIONAL FORM 1040 NET INCOME	0		
Line 40	ADDITIONAL FORM 1040 NET INCOME	0		
Line 41	ADDITIONAL FORM 1040 NET INCOME	0		
Line 42	ADDITIONAL FORM 1040 NET INCOME	0		
Line 43	ADDITIONAL FORM 1040 NET INCOME	0		
Line 44	ADDITIONAL FORM 1040 NET INCOME	0		
Line 45	ADDITIONAL FORM 1040 NET INCOME	0		
Line 46	ADDITIONAL FORM 1040 NET INCOME	0		
Line 47	ADDITIONAL FORM 1040 NET INCOME	0		
Line 48	ADDITIONAL FORM 1040 NET INCOME	0		
Line 49	ADDITIONAL FORM 1040 NET INCOME	0		
Line 50	ADDITIONAL FORM 1040 NET INCOME	0		
Line 51	ADDITIONAL FORM 1040 NET INCOME	0		
Line 52	ADDITIONAL FORM 1040 NET INCOME	0		
Line 53	ADDITIONAL FORM 1040 NET INCOME	0		
Line 54	ADDITIONAL FORM 1040 NET INCOME	0		
Line 55	ADDITIONAL FORM 1040 NET INCOME	0		
Line 56	ADDITIONAL FORM 1040 NET INCOME	0		
Line 57	ADDITIONAL FORM 1040 NET INCOME	0		
Line 58	ADDITIONAL FORM 1040 NET INCOME	0		
Line 59	ADDITIONAL FORM 1040 NET INCOME	0		
Line 60	ADDITIONAL FORM 1040 NET INCOME	0		
Line 61	ADDITIONAL FORM 1040 NET INCOME	0		
Line 62	ADDITIONAL FORM 1040 NET INCOME	0		
Line 63	ADDITIONAL FORM 1040 NET INCOME	0		
Line 64	ADDITIONAL FORM 1040 NET INCOME	0		
Line 65	ADDITIONAL FORM 1040 NET INCOME	0		