

## A Taxing Matter

It's June now, but during the mid-April rush at tax time, Hilda Black phoned to ask whether she could roll over funds from one special tax-deferred retirement account into another without paying taxes on any gain. You answered then that such a rollover was not considered a tax event as long as the transaction was completed within sixty days. You also informed her that when she eventually draws out the funds to supplement her retirement income, she will then have to pay taxes on the portion that represents interest earned on the account.

Today you received a rather emotional and disorganized email from Ms. Black with scanned attachments of account statements and a letter from the IRS. Her email explains that the IRS is billing her for \$3,309.72 in penalties and back interest because she failed to declare interest income earned when she cashed in "those bonds that I told you about last April." But she didn't ask you about cashing in bonds; she asked you about rolling over funds from one tax-deferred account into another.

You checked the archives for the recorded April conversation you had with Ms. Black, and it confirmed that your recollection of the call was correct. When you checked the statements she attached, you learned that she cashed in a large, standard (i.e., non tax-deferred) bond mutual fund account, but never declared taxes on the gains. It could be that she thought of this bond account as funds she was putting aside for her retirement and that they were in a tax-deferred account even though they were not. In her mind those bonds she thought she told you about last April were tax-deferred. But it doesn't matter what she thought; the income earned on those bonds is taxable just as any other investment income is.

Ms. Black is an older woman, and you have prepared her taxes for the five years since her husband died, but this year she decided to prepare her taxes herself. When she called, you were happy to answer her question, but you never saw any of her documents, and she paid you no fee. She asked an abstract question and you answered it correctly. You've had a good relationship with Ms. Black over the years, and she is a very nice lady, but she is very anxious about her finances, and sometimes she gets confused and overwrought when something goes wrong.

Ms. Black demands that you pay the penalties or she will sue. Her position is that you misled her, so you should pay the penalties and interest charges, which of course, are getting larger every day.

Your task is to email Hilda Black explaining why you are unwilling to pay the penalties and interest charges requested by the IRS. Set up as an email using full block style. In class 8 you will submit the final draft, the rough draft worked on in class, and the situation analysis in that order.