

**SPECIAL
ISSUE**

The new "simplified" tax form—can you do it yourself?
... States that tax you most and least... Tax shelters
for '78... One IRS agent's finances... and more

Money[®]

FEBRUARY 1978 \$1.50

**YOU
AND YOUR
TAXES**

LIFE IS
UNFAIR.



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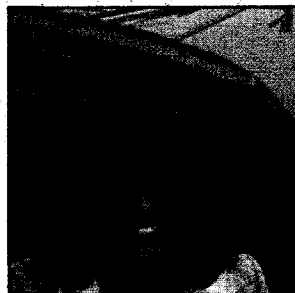
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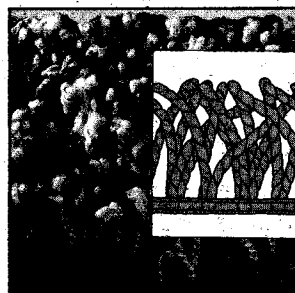
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Cover illustration by Jack Davis

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Despite President Carter's proposed tax cut, the average person will end up paying more and more in total taxes.

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Since Detroit dropped convertibles, eight imported models—from \$4,500 to nearly \$100,000—offer the best way to sing the song of the open roof.

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Among other things, almost 90% favor ending double taxation of dividends—and a surprising number who've been audited think the IRS played fair.

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YOU AND YOUR TAXES

The very monstrosity of the U.S. tax system can give it a perverse appeal. It has the power to unite politicians, business leaders and ordinary citizens in an alliance of pure rage—and to enrapture anybody who succeeds in beating the taxman at his own game. Unfortunately—as the following series of stories on taxes indicates—that gets harder and harder.

For all the talk of tax reform, the main relief in sight for middle-income taxpayers is a slightly simpler Form 1040 (see "Help with Your New 1040," page 38). Middle-income tax shelters remain (see page 49), but the tax laws are so confusing that even the Internal Revenue Service tax adviser featured in *One Man's Finances* (page 54) needs tax advice. Some weird recent readings of the tax code by others at the IRS are recounted in a series of boxes dotted throughout this section.

As the poll reported on page 46 indicates, most *Money* subscribers strongly favor certain tax changes. Though state and local taxes are high and inconsistent (see page 44 for a previously unpublished ranking), subscribers cited federal income and Social Security taxes as the most objectionable. Alas, even if President Carter's income tax cuts sail through Congress, whatever relief they may bring is scheduled to be more than offset by Social Security's leaps over the next 2½ years (see page 51).

But, as any armchair philosopher will tell you, the bigger the problem, the greater the satisfaction in solving it. The pages that follow are designed to help you do just that.





Outside the Chicago IRS office, David Diersen heads home after a taxing day.

One man's finances

A Taxman Audits His Future

Our advisers think David Diersen of the IRS could face some tax headaches of his own—among them a tuition deduction and a capital-gains problem. *by Marlys Harris*

*If you drive a car, I'll tax the street,
If you try to sit, I'll tax the seat . . .
'Cos I'm the Taxman,
Yeah, I'm the Taxman.*

The Beatles song, which evokes the almost universal resentment of that guy we all love to hate, doesn't bother David Diersen, 29, a tax collector in the Chicago district office of the Internal Revenue Service. Diersen believes that more people dislike him because he's a government worker than because he's a taxman. "Anyone working for the government these days is considered lazy or incompetent," he says.

Diersen's rapid rise in the federal service rules him out of the ranks of the lazy and incompetent. When he first joined the IRS in 1971 as an \$8,582-a-year revenue officer, he was assigned to collect small amounts of back taxes from individual taxpayers. Diersen, who is over six feet tall but thoroughly unthreatening in his manner, encountered trouble only once: "One lady in a high-rise flew off the handle and started shouting." Ever cautious, Diersen followed the recommendations of his IRS instruction manual and made a hasty exit. "Most people treat you with respect," he says. Unfortunately, he adds, "a lot of people lied to me about paying, and that hurt."

Since 1971, Diersen's salary has nearly tripled to \$24,070. In 1976 he was promoted to special procedures adviser in the collection division of the IRS. His job is to interpret complex IRS collection rules and explain their application to co-workers and taxpayers' representatives. Many of his cases involve bankrupt businesses that have failed to pay their employees' withholding and Social Security taxes. A lower-level IRS worker decides which company official is liable for the taxes. If the official disputes the decision, Diersen hears the appeal at an informal conference.

Diersen invests little emotion in his work. "There are not that many hardship cases," he says. "When people don't pay their taxes, usually they just chose to buy something instead." He believes that he can help make the system work better. "If everyone paid his fair share of taxes, rates could be lowered," he says. "In theory, I have the power to do something about that."

The government "shapes society by deductions," says Diersen, pointing out that home ownership, for example, is encouraged by allowing deductions

Interest costs and property taxes. In fact, that's one reason he bought his condominium in a luxury high-rise in downtown Chicago.

For the past four years, Diersen has deducted the cost of tuition, fees and books for accounting and business courses given at Loyola and De Paul universities in Chicago. The courses may eventually help him become a C.P.A., but he believes they are directly related to his job. If he's audited, he promises that "I'm ready to fight."

Diersen vehemently disapproves of the so-called "marriage penalty," which requires married couples earning approximately equal incomes to pay more taxes than single people or unmarried couples with the same total income. Last year, even before he met Karen Gassner, 27, whom he plans to marry this April, he joined the Committee on Single Taxpayers, a private organization that is trying to get Congress to do away with marriage-related tax tables.

As careful with his money as he is with the government's, Diersen calculates an annual income-outgo statement, which allows him to analyze his expenses down to the last penny. Last year, for instance, he decided he was paying too much for government life insurance. He more than doubled his coverage and cut his costs \$133 by purchasing instead through the National Treasury Employees Union.

Planning carefully, Diersen has managed to build his net worth to \$53,950. His two key assets are his downtown condominium and a two-bedroom condominium town house in Park Forest South, a "new community" on the southern edge of Chicago. He bought the town house for \$22,400 in 1972 because it was near the IRS branch office where he then worked and close to

Crete, Ill., the small town 30 miles south of Chicago where he grew up and where his mother and brother Glen, a 24-year-old rock musician, still live.

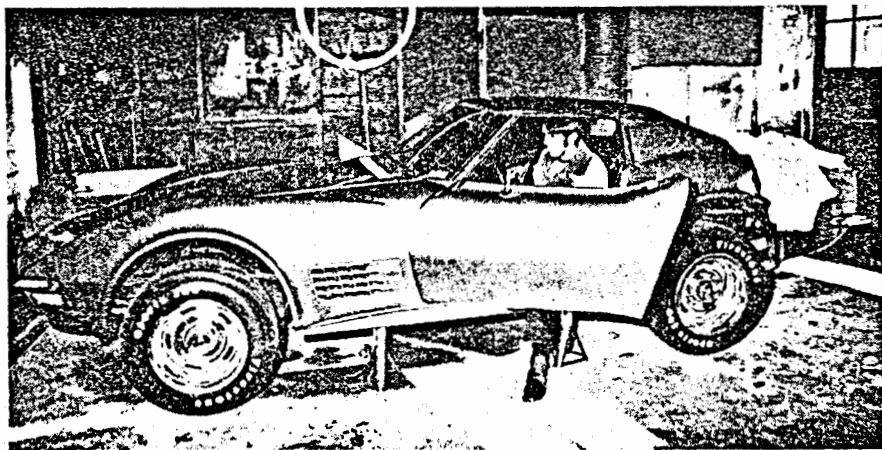
When he was transferred to the Loop in 1974, he bought a small studio apartment in the Outer Drive East building, which served as a pied-à-terre during the work week. He lived in his town house on weekends. In 1976 he traded his studio for a \$50,000 one-bedroom unit in the same building and rented out the Park Forest South town house to cover his costs and deduct depreciation. Diersen and his fiancée plan to spend as much as \$100,000 for a house in one of the suburbs west of Chicago. Miss Gassner, an administrative assistant at the U.S. League of Savings Associations, has already saved up the down payment by living at home with her parents since her graduation from high school in 1968.

Always the taxman, Diersen in 1977 bought 40 shares of stock; he chose Commonwealth Edison, a high-dividend utility stock, to take advantage of the fact that there is no tax on the first \$100 of dividends. His most exciting asset is a 1972 Corvette. He bought it new as an investment, he says, because well-maintained Corvettes appreciate in value. He believes that his car is now worth at least \$6,000. However, he has grown to love the car so much that he refuses to sell—or to drive it much. Instead he keeps it on blocks in a garage during the winter months and uses it only occasionally in the summer. To get around, he drives a 1962 Chevrolet.

Diersen's father, a department head for the Stauffer Chemical Co. until his death in 1969, and his mother were both Lutherans of German de-

continued

Diersen starts up his 1972 Corvette, which he keeps off the road in winter.



After taxes

Ever tax-conscious, 29-year-old IRS agent Dave Diersen has taken advantage of real estate deductions to help amass a net worth of \$53,950.

1977 INCOME

IRS salary	\$22,449
Rental income	2,675
Interest and dividends	224
Subtotal	\$25,348
Income tax refund	1,215
Total	\$26,563

1977 OUTGO

Outer Drive East condominium mortgage and expenses	\$6,348
Income taxes	4,900
Park Forest South condominium mortgage and expenses	3,131
Food and entertainment	2,198
Retirement fund	1,568
Stock purchase	1,275
Tuition, fees and books	823
Clothes and gifts	803
Auto expenses	685
Vacation expenses	674
Subscriptions and memberships	398
Contributions	317
Life and health insurance	196
Subtotal	\$23,316
Savings	3,247
Total	\$26,563

ASSETS (as of Dec. 31, 1977)

Outer Drive East condominium	\$60,000
Park Forest South condominium	26,000
Retirement fund	7,393
Bank accounts	6,333
1972 Corvette	6,000
Personal possessions	3,000
Accrued vacation pay	2,777
Stocks	1,155
Park Forest South tax escrow account	529
1962 Chevrolet	300
Total	\$113,487

LIABILITIES

Outer Drive East mortgage	\$38,795
Park Forest South mortgage	19,380
Real estate taxes	1,362
Total	\$59,537

NET WORTH \$53,950

scent. Both parents, he says, "instilled in me the value of independence." In 1967, while some kids were dropping out and heading for Haight-Ashbury, Diersen was delivering mail to pay his tuition at the University of Illinois' Chicago Circle Campus. His parents could have paid his tuition, but his father, a music enthusiast, bought an organ instead. "Thinking back," says Diersen, "I'm glad he bought the organ."

His father's death during Diersen's junior year was a blow, but not a devastating one. "Some people feel they have lost a guiding light, but Dad already taught me to think for myself." In financial terms, he adds, "it was an unexpected benefit because I got Social Security."

Working and commuting to campus from Crete limited Diersen's social and academic life. In his junior year, he transferred to Northern Illinois University in DeKalb, Ill., about 100 miles from Chicago. The first semester was tough because he lived on campus but continued to travel to his post office job near Crete. He maintained a C average but later got his grades up to Bs when he started taking more interesting business courses.

Diersen took the Federal Service Entrance Examination, a civil service test that qualifies college graduates for federal jobs, while in his senior year at Northern Illinois. However, after graduating in 1970 with a B.S. in manage-

ment, Diersen landed a job as retail sales manager at a Firestone tire store in suburban Chicago Heights, about four miles from Crete. He disliked the occasional 60-hour work week and, he says, "Advancement seemed like much too long a road." He left Firestone to take a job he thought he had sewed up with a car distributorship. The job fell through because the company told him that only minority-group applicants were being hired. The federal test results were filtering through the bureaucracy, though, and the IRS called him in for an interview. He was offered a job and he took it.

When he's not collecting taxes, Dave Diersen is collecting information. He reads Chicago's three newspapers each day, and subscribes to about 20 magazines. Although he is shy and a little awkward with strangers, he has made an effort to travel, bicycle, play tennis with friends and meet new people, especially female people. That effort paid off this year when he met his fiancée at Northminsters, a church-sponsored singles group.

Diersen is looking forward to marriage. "I need a wife," he says desperately as he fumbles in his kitchen for paper napkins or teabags. Karen Gassner, as bashful and retiring as he is, can express her feelings for him a little more openly: "Dave has encouraged me to go back and get a college degree, which has been my dream for a long time. He's been terrific."

Since the couple announced their

The advice

Some untaxed tips

When he wrote to Money for advice, tax collector David Diersen's problems seemed far from dire. He wanted to know if he should sell his two condominiums once he and his fiancée, Karen Gassner, buy their new house in a Chicago suburb. He felt the need of an investment program to put his potential real estate profits to good use. He asked for tax advice ("Some people," he says wryly, "think we at the IRS get a discount") and wondered whether he should try for a better-paying job in private industry.

Money recently brought together three advisers in Diersen's downtown Chicago condominium: Leanne Lachman, senior vice president of Real Estate Research Corp., a Chicago real estate consulting firm; Charles Sayre, a vice president of the brokerage firm of Thomson McKinnon Securities Inc.; and Simon Pearlman, a C.P.A. and partner in the tax department of the Chicago office of Arthur Young & Co., an international accounting firm.

The advisers' main points:



LEANNE LACHMAN,
real estate specialist:

You have one solid and one weak real estate asset. The appreciation in your Park Forest South town house condominium has not matched inflation. You paid \$22,400 for it in 1972, and it would have to be worth \$32,200 today to have kept up with inflation. So far, you've been unable to sell for \$28,000. Don't keep hanging onto it hoping that it will turn around even if you are renting it out. Try to

Diersen and his fiancée, Karen Gassner, pore over books of upholstery samples at a Chicago furniture store.



sell it in May, a few months before your tenants' lease is up. If, by the end of June, you don't get your price, you could try to find a renter who is interested in buying. You can write a purchase option into his lease with an agreed-upon price. After a year, you apply his rent to the down payment. That could be a way of getting a higher price for the town house than by selling it outright.

You should hold onto this downtown condominium for three to five years. Unfortunately, one-bedroom condominiums like this one are easier to rent than to sell, so you may not make as big a profit as you might from a two-bedroom or an efficiency. You might be able to get \$55,000 if you sold. I would try to rent out this unit for \$510 to \$525 a month so that you cover all your costs. That may sound high, but there's a proven market for condominiums in downtown Chicago. By renting, you will be able to take advantage of the tax deduction for depreciation.

You are right to buy a high-priced house—as much as you can afford—with the lowest down payment possible. But stay flexible. In three years, you may want to switch to a different house—even a more modest house—and use the money for something else.



CHARLES SAYRE,
stockbroker:

If I were you, I wouldn't hold onto this condominium for longer than two to five years. I see such a fantastic overdoing in the Chicago condominium market right now that I tend to shy back a little.

Securities have a strong advantage over real estate because they are more liquid. Also, using them as collateral, you can borrow 75% to 80% on them

from a bank. You should be considering a diversified portfolio of growth stocks. My suggestions are pretty conservative because you and Karen seem conservative. Also, the market is not terribly vibrant now, and I don't want your first experience, going in, to be a bad one.

If you had, say, \$24,000 to invest, I would suggest a portfolio of six or seven stocks. You now have 40 shares of Commonwealth Edison, which is a good local utility stock. You might add 60 more shares. Then you should get representation in another utility, in the oil industry, in the office equipment industry, in the electrical equipment industry and eventually in food, drugs and chemicals. When you invest, think in terms of units of dollars, not shares. You don't have to buy a round lot of 100 shares when you're starting. Eventually, you'll want to build up a portfolio of at least 10 to 12 stocks, which is standard for a couple.

You should also maintain an emergency fund of three to six months' income either in a savings account or Treasury bills so the money will be there if you need it. If all your assets are in real estate, you would need about six months' pay in your emergency fund.



SIMON PEARLMAN,
tax accountant:

Too many people focus on taxes to the exclusion of everything else. You shouldn't let the tax tail wag the investment dog. In your situation, taxes should not play an overbearing role, certainly not in your investments.

No significant tax savings occurred to me when I went over your returns. However, I'll mention one tax rule you probably know. When you

sell a principal residence, you can defer paying a capital-gains tax if you buy a new residence within 18 months. You did that when you sold your studio and bought the one-bedroom apartment this past year. However, if you buy three residences, one after another, you can't buy the third within 18 months of the sale of the first without losing the tax benefit. If you decide to sell this condominium and reinvest the proceeds in your house, you'd better watch the calendar if you want the deferral benefit.

Also, your tuition deduction will stand up only if the courses maintain or improve your skills on the job. Court cases have held that courses are not allowable deductions if they prepare you for a new career.

The IRS in my opinion is a fine place to work. Your opportunities will open up even more in 1979 when you get your C.P.A. You could become an IRS agent and get some auditing experience. That might involve a step back in pay and in your civil service grade, but if such a move opens up future opportunities, it might make some sense. There may be a private company that could use your talents to assist in the collection of delinquent accounts. Perhaps a bank might hire you for your ability to analyze financial statements. However, you probably couldn't command the same compensation you do at the IRS.

Characteristically, Diersen has not moved like lightning since the session. He is more inclined than before to sell his Park Forest South condominium, but he does not want to lose money on the sale. He and Karen worry that they won't be able to find good tenants if he keeps his downtown Chicago condominium. If he does sell it, he'll wait until the 18 months are up. "I'm glad they didn't tell me to sell my Corvette," he says.

engagement last July, they've been doing more planning than the President's Office of Management and Budget. In Stage One, the first year of their marriage, the Diersens-to-be plan to buy their house and a car, possibly an Oldsmobile Delta 88. In Stage Two, the second and third years of marriage, Dave will take his C.P.A. examination and the couple will buy some new furniture and travel. In Stage Three, after

they've been married at least three years, Dave plans that he and Karen will have kids. Karen, however, who was raised in a traditional Catholic family, seems to have children and part-time college study scheduled for some time early in Stage Two.

Diersen likes his job but has a vague feeling of dissatisfaction. He earned an M.B.A. from Loyola University, studying part time while he

worked for the IRS, and he thinks sometimes about putting his skills to work elsewhere. But he dismisses the idea as soon as he considers it. "I don't think I have that many opportunities. I'm a Loyola graduate, not a Harvard man." Still, he continues to nag himself. "Shouldn't I want something better?" Later he adds, "Well, I'm getting married, and I'm buying a \$100,000 house. I must be happy." **END**

Psyching out the test

The problem with the entrepreneurial test ["Do You Have What It Takes?" March] is that the correct answers are readily apparent. I took the test twice before looking at the answers. The first time, looking for "correct" answers, I scored 13. The second time, answering on the basis of my personality traits, I scored 8. Since I have aspirations toward someday owning my own business, do I score myself on the basis of Test 1 (knowing the qualities necessary for success) or of Test 2 (my current entrepreneurial profile)?

RICHARD JACOBS
Oak Park, Ill.

Test 2.

A volatile conflict

Re One Family's Finances ["A Couple with His-and-Her Small Businesses," March]: From your excellent description of the Cappellettis' situation we conclude that you needed a fourth expert on your panel—a marriage counselor.

The issues of love and money are inseparable in a discussion of any family's finances. Unless the Cappellettis deal with the volatile sex-role conflict plaguing the marriage, no amount of financial advice will keep the family from undergoing an expensive and complex divorce.

LINDA AND LAWRENCE
BUZZELL-SALTZMAN
Marriage, family and child counselors
Venice, Calif.

A taxman's rebuttal

Concerning your One Man's Finances article on me ["A Taxman Audits His Future," February]: My comment about lazy or incompetent government workers was solely in reference to how undue attention to this by the press served to demoralize the conscientious government worker. I invest plenty of emotion in my work, and I am much too busy to speculate about any resentment of my occupation or if this is cause for anyone to dislike anyone. My comments concerning hardship cases and people who do not pay their taxes were strictly in reference to chronic tax delinquents who would feign hardship situations when they do not exist.

Your treatment of adviser Simon Pearlman's comment about my educational deductions was completely out of line. My M.B.A. accounting and taxation courses are deductible as they have maintained and improved

continued

Acknowledgments

70-71: Vespa Ciao courtesy Camrod Motors. Batavus courtesy Family Moped Center, tennis shoes courtesy the Athlete's Foot, boots and clogs courtesy the Stitching Horse Bootery, all New York City.

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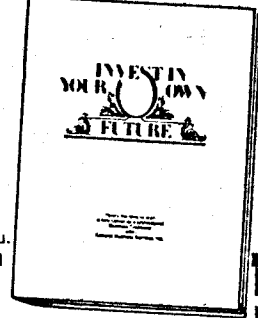
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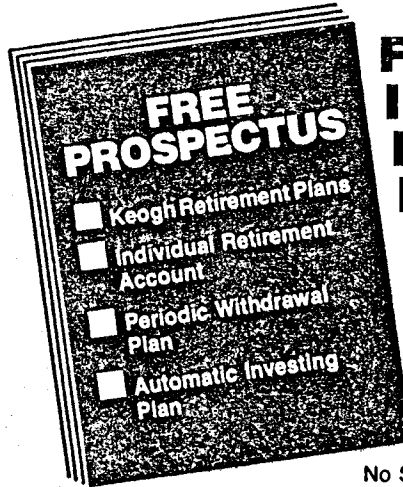
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my job skills as an employee of the IRS and they do not qualify me for a new trade or business. I am extremely proud to hold an M.B.A. degree from Loyola University of Chicago, and I am sure that many Harvard M.B.A. graduates would be envious of my career opportunities within the IRS.

DAVE DIERSEN
Chicago

Ahead of the bandwagon

Re "The New Black-Box School of Stock Picking" (March): You overlook the leading example of a computerized stock selection system that is available to individual investors. The Value Line Ranking System is the oldest (1965), has a proven 13-year track record (top-ranked stocks rose 15.8% in 1977, for example) and goes to individual investors (nearly 60,000 Value Line Investment Survey subscribers). It also covers the most stocks (1,700), and it weighs each of the 1,700 stocks against every other stock, like the "new" technology in the article. Time will tell if those who have jumped onto the ranking-system bandwagon 13 years late will achieve the success or acceptance of the Value Line Ranking System.

F. BARRY NELSON
The Value Line Investment Survey
New York

More solutions

Re the review of my book *The Inflation Swindle* (Reviewing Stand, February): If I had sufficient space, I would refute virtually every point your reviewer made about my book. Consider my recommendations for removing the government's incentives for causing inflation: 1) the government should stop manipulating interest rates in a self-serving manner, 2) the U.S. Treasury should issue inflationproof securities, 3) the federal income tax should be inflationproofed, 4) the Federal Reserve's powers over the creation of fiat money should be curbed, and 5) the portfolio of government securities held by the Federal Reserve should be turned over to the Treasury to be canceled.

The foregoing comments are presented on page 131 of my book. Your reviewer picked items 2 and 5, claiming they are "the only solutions" I propose.

ERNEST J. OPPENHEIMER
New York

A smaller Keogh

"Keeping Up with Middle-Income Tax Shelters" (February) says, "Normally, a self-employed person cannot put more than 15% of total income into a Keogh plan; but a special provision for small accounts allows all of the first \$750 of outside earnings to go into a Keogh." In fact, this provision is limited to those with an adjusted gross income of \$15,000 or less.

CHARLES W. HOFF III
Frederick, Md.

A tax masterpiece

Re "Subscribers Sound Off on Taxes" (February): I wish I had been your 302nd sub-

scriber surveyed. We surely agree with the 90% who want a stop put on the double taxation of dividends. Our congratulations to your staff who worked on this issue. It is a masterpiece.

R.H. THOMAS
Minneapolis

Deduction disallowed

Money Helps (March) advises Mr. Nocturne, who lives in New Jersey but whose tax home is in New York City, that he may deduct expenses of meals and lodging when he stays overnight in New York. Such expenses are deductible only if the taxpayer incurs them while away from his tax home (as distinguished from his residence). Mr. Nocturne both works and goes to school in New York, so the expenses are not deductible.

WILLIAM I. WATTENBERG
New York

The shininess scale

Re your article on protective coatings for cars (Shopping Center, February): The greatest insult of all was the implication that Zee-Glaze does not work. Let me relate the results of some testing we have performed. First, we measure paint gloss with a reflectometer, which is designed to measure the luminous reflectance (shininess) of objects.

The scale runs from 0 to 100, with 0 being totally nonreflective and 100 being the pure reflectance one would find in a perfect mirror. Cars vary, of course, but normally we expect to find the reflectivity of fairly new paint surfaces to read in the high 50s to low 60s. Following the application of the Zee-Glaze process, reflectometer readings are normally in the low 80s, a very significant increase in gloss. Regarding durability, the Zee-Glaze material is still on the car and working after 75 car washes, while most waxes are gone after approximately 25 washes.

FRANK HAYWARD
Ziebart Rustproofing Co.
Troy, Mich.

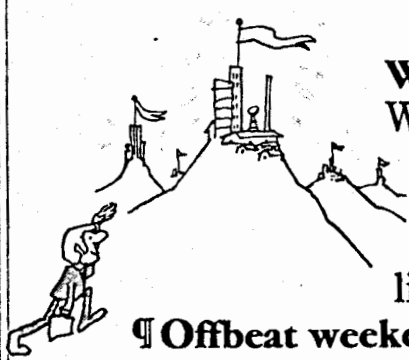
Batting 1.000

Re "Pssst—Wanna Win a Raffle?" (March): I would like to thank Thomas S. Knight Jr. for the Knight Fold. I have used it once since reading his article and have won as many drawings. I agree that as little publicity as possible should be given to this amazing technique.

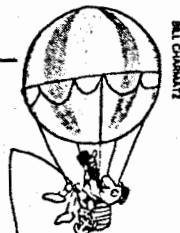
The Fold is, and always will be, with me.
JEFF CHAPPELL
Randallstown, Md.

Address letters to *Money*, Time & Life Building, Rockefeller Center, New York, N.Y. 10020.


NEXT MONTH IN Money




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We list the 10 urban areas that should be tops in job growth in the 1980s, and tell what it's like to live there.



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Which mean most to the individual investor?