

WORLDWIDE ENTERTAINMENT INVESTORS

Q & A's

This Question and Answer page provides very general information about how a specific Section of the Internal Revenue Code might be beneficially used. The goal is to stimulate discussion of these issues. It is not intended to be legal or tax advice as each investor's circumstances may call for analysis.

By way of example, let us look at a hypothetical investor, Mr. Smith, who earns almost \$300,000.00 per year and put \$200,000.00 into an investment which it has been determined qualified as a "theft" under the law of the investor's State of residence. We will assume the Mr. Smith was "in privity" (a legal relationship - usually inquiring "to whom did you give your money?") If, after analysis of the investor, the investment and a determination of the "tax basis," Mr. Smith qualifies and files the appropriate documents with the IRS, he may be able to wipe out his entire tax bill for the appropriate year. Excess deduction can be carried back or forward.

1. What is the difference between the IRC 165 (C)(2) "theft loss" treatment and capital loss treatment?

Answer: In most investment loss circumstances, your losses are treated as capital losses which are offset against capital gains. Capital loss offsets against your salary or ordinary income are limited to \$3,000.00 per year. Also, the amount of the deduction for the investment theft loss is generally not limited to a specific dollar amount.

Theft losses, as defined by the law of your home state and the Internal Revenue Code, may be deductible immediately against your ordinary income. Thus, depending on your individual circumstances, you may be able to obtain a very significant tax refund.

2. How do I know if I qualify for 165 treatment?

Answer: First of all, the taxpayer should understand that the establishment of the qualifications for this beneficial tax treatment is not a simple process. This should not be undertaken without assistance from a professional. There are many factors which must be examined and determined. As a side note, there are some circumstances where a tax basis could exist in an IRA or a Roth IRA.

One threshold issue is whether your investment has a "tax basis." Generally speaking, qualified retirement money ("pre-tax dollars") do not have a tax basis and therefore, in much the same way as gains in IRA accounts are tax deferred, the loss may not be available for this treatment.

The investment itself must qualify under the state law of your residence as a "Theft." Investment Fraud Recovery Network, working with a network of seasoned professionals can review these requirements to determine if your particular situation qualifies.

3. In what year can I file for the 165 theft treatment?

Answer: Two events must occur to establish the appropriate filing year. First, the theft must be "discovered." Second, all reasonable likelihood of recovery must be exhausted. If there are circumstances where a percentage might be recovered in the future, the taxpayer may deduct the balance of the investment in the year that recovery percentage is determined. Of course, there are CPA's and other tax preparers that are familiar and comfortable with this issue. In that case, IFRN need not be involved unless they desire our documentation or audit support.

4. Does the "rising tide" method of calculation affect my theft claim?

Answer: Under the "rising tide" analysis being used in the WWE receivership, there are some investors who are likely to receive little or no distribution from the receivership. This means that the determination that exhaustion of all reasonable likelihood of recovery is more certain.

Regardless of whether it seems likely that the "rising tide" calculation will prevent recovery or distribution from the receivership, an analysis of 165 tax basis dollars should be performed.

5. How do we know the percentage of loss to file for 165 treatment?

Answer: The percentage of loss to apply is determined at the time of the 165 analysis. This can be affected by distributions previously received or by expenses that you have incurred in trying to collect on your money. It is anticipated that Investment Fraud Recovery Network will be able to provide the appropriate documentation to complete this analysis.

6. Is there a point that I can stop withholding taxes from my income?

Answer: This is a critical decision that must not be undertaken without professional advice. Failing to withhold taxes can subject the taxpayer to very significant penalties. Investment Fraud Recovery Network, working with your tax professional, can provide the forensic support to make this decision possible.

7. How many years can I go back and recover taxes that I've paid?

Answer: Once the appropriate year of filing has been determined and the "theft loss" applied to that year, the taxpayer may then carry back the loss three (3) years back. For instance, if it is determined that 2007 is the appropriate year for filing, the taxpayer could also carry the unused portion of the theft benefit back to 2004, 2005 and 2006 (Note: There may be reasons not to carry the loss back, this analysis is best made by a tax professional.) As stated previously, the taxpayer can also opt to carry the loss into future years.

8. How do I recover money from filing for 165 treatment?

Answer: When all the qualifications have been met a taxpayer can obtain refunds for taxes paid in the past. A 165 qualified theft loss may potentially be carried forward against income to be earned in the future.

9. Will I receive any money back from State income taxes?

Answer: Most States recognize similar rules as the Federal 165 treatment; however, there may be important differences such as in how the "carry back" rules apply. If your State (or other governmental agency) has an income tax, you may be able to obtain beneficial State income tax treatment from the application of §165 of the Internal Revenue Code.

10. Will filing for 165 treatment cause an IRS audit?

Answer: While the 165 treatment will often be reviewed on a case by case basis, the taxpayers decision to seek such treatment generally has not, in our experience, triggered a full blown audit.

11. How does Investment Fraud Recovery Network fit into the picture?

Answer: Investment Fraud Recovery Network provides the forensic and audit support. We work closely with your attorney or tax professional. Most very seasoned tax professionals have had very limited exposure to the theft loss treatment. If you typically do your own taxes, it is generally recommended that a tax professional be involved in the filing of your returns. Of course, there are CPA's and other tax preparers that are familiar and comfortable with this issue. In that case, IFRN need not be involved unless they desire our documentation or audit support. Investment Fraud Recovery Network is not a law firm; it is an affiliated business owned in part by Jeffrey P. Coleman. Though Mr. Coleman is a licensed Florida attorney admitted to practice in all states before the United States Tax Court, Investment Fraud Recovery Network is not regulated by the Florida Bar Association.

12. What if my claim comes up for review with the IRS?

Answer: This beneficial tax treatment has been in existence for decades. Nevertheless, it is a relatively rare application. Therefore, the huge Internal Revenue Service computer that scans and analyzes portions of your tax return will frequently "kick out" the return so it can be reviewed.

As part of its service, Investment Fraud Recovery Network will provide the support and documentation at this stage.

13. What if my claim is denied?

Answer: There are various administrative and appeals processes available to the taxpayer if, upon initial review, the claim is denied. Investment Fraud Recovery Network has worked with investors to assist and favorably resolve 165 claims even after they have

been denied at the first level. Be aware that denied claims could potentially involve the imposition of interest and penalties. Pursuant to Internal Revenue Circular 230, nothing in this information about United States Federal tax advice or any website linked hereto is intended to be used and cannot be used for the purposes of avoiding penalties that may be imposed by the internal Revenue Service.

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