

# ANSPACH FINANCIAL GROUP

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## Protecting Your Privacy

Many readers may be aware of the startling proposal before Congress this past March that would have allowed tax preparation businesses, with permission from their clients, to sell client information for marketing and other purposes. There is concern that large tax preparation firms, who could achieve significant financial benefit from such sales, would use less than ethical practices to obtain this information from their clients.

Privacy has become a very sensitive issue, and we received many calls from our clients fearful that we could sell their private information. Please rest assured that **we will never do this**.

Our privacy policy expressly promises that we do not disclose any nonpublic personal information to a third party unless "you have specifically authorized us to do so in writing". In addition, "the only nonpublic personal information we collect is provided to us

by you or obtained with your authorization". We maintain physical, electronic and procedural safeguards to protect your privacy.

A complete copy of our privacy policy is included in the tax organizers mailed out to current clients each January. New clients receive a copy with their engagement letter. For an additional copy, contact our office and provide a fax number or email address.

## Beware the AMT

By the year 2010 the alternative minimum tax (AMT) will impact 95% of tax filers with income levels between \$100,000 and \$500,000 according to the Tax Policy Center. If their projections are correct, 79% of those with incomes between \$75,000 and \$100,000 and 43% of those with incomes between \$50,000 and \$75,000 will also be "hit" with the AMT. How did this happen? What can be done about it?

The AMT (formerly the minimum tax) was enacted in 1969 as a result of public outcry over a reported 155 taxpayers with incomes over \$200,000 who had paid no income tax in 1966. In fact, Congress received more constituent letters on these 155 taxpayers in 1969 than on the Vietnam War. This new tax was created to ensure that high-income filers did not take undue advantage of tax laws in order to

reduce or eliminate income tax.

The AMT is a parallel tax system with its own tax base, exemption amounts, tax rates and usable credits. Deductions for state income taxes, real property taxes, and miscellaneous itemized deductions such as employee business expenses are not allowed in the AMT system. Personal exemptions for filers and their dependents are also

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### Special points of interest:

- New legislation increases the number of years that children's income may be subject to parent's tax rate.
- The Alternative Minimum Tax appears to be here to stay, at least in the foreseeable future.

## Kiddie Tax Expanded

**The new legislation will mean higher taxes for many teenagers.**

One of the most significant provisions in the recently enacted Tax Increase Prevention and Reconciliation Act of 2005 is the one relating to the “kiddie tax”. This is the terminology commonly used for the law requiring that certain investment income of children be taxed at the parent’s tax rate. The imposition of the “kiddie tax” was intended to discourage parents from transferring investment assets to their

children to take advantage of the lower tax bracket.

The law previously applied only to children under age 14. The new law, which is effective beginning in 2006, extends the application of this provision to children who are under age 18 on the first day of the tax year.

The “kiddie tax” does not apply to a child’s earned income, which is taxed at the minor’s individual tax

rate. It kicks in when the child’s unearned income exceeds a certain threshold (\$1,700 in 2006). Amounts over the threshold are taxed at the parent’s marginal tax rate unless the child is married filing a joint tax return. Since the “kiddie tax” is computed by adding the child’s investment income to the income of the parents, it is possible for the child’s income to be taxed at a higher rate than that of the parents.

## IRS Warns of Phishing Scams

The Internal Revenue Service is concerned about the increase in “phishing” scams whereby identity thieves send email masquerading as official communication from the tax agency. They frequently use what appear to be official IRS email addresses and graphics in order in order to solicit personal data which can then be used to commit financial crimes, including the filing of fraudulent tax returns. The message often advises taxpayers that they are due a refund and directs them to the false IRS Web site where they are prompted

to “verify” their identity by furnishing Social Security numbers and other personal information.

The IRS advises that it does not initiate contact with taxpayers by email, nor does it request Social Security numbers or other detailed personal information via email. It recently dedicated a page of its Web site to combating identity theft with content to educate taxpayers about the many scams that are being used to access their personal information. It includes instructions for

forwarding suspicious unsolicited email communications from the IRS so they can trace them and shut down the fraudulent Web sites.

The official IRS Web site can be found at [www.irs.gov](http://www.irs.gov), and a link to the new Web page is entitled “Suspicious E-mails and Identity Theft”. If you think you are the target of a bogus IRS communication, you can forward it to: [phishing@irs.gov](mailto:phishing@irs.gov), or you can contact the Treasury Inspector General for Tax Administration at 800-366-4484.

## Beware the AMT

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not allowed. The AMT liability is the difference between the regular tax and the tax calculated under the AMT system.

The AMT has not been indexed for inflation nor has it been adjusted in conjunction with the reduction in regular tax rates from enactment of the 2001 tax law. As a result, the AMT is a major contributor to a tax system that is

complex and increasingly viewed as unfair and not conducive to economic growth. Because many taxpayers become subject to the AMT for reasons that are not the result of tax-motivated planning, they are not aware they will be affected until they complete the preparation of their tax returns. They become unsuspecting—and unintended—victims of the AMT.

Because of budgetary constraints and the large and ever-increasing

amount of revenue from the AMT, repeal is highly unlikely. In fact, by 2008, getting rid of the AMT is going to cost more in lost tax revenue than repeal of the regular tax. The AMT has become a poster child for the need to reform the tax system. Solving the AMT problem will only take place as part of a comprehensive overhaul of our increasingly complex tax system.

## Buy or Lease?

A common question from clients is, "I'm getting a new car. What's better—buying or leasing?" The answer is rarely simple since a number of factors may need to be considered, many of them a matter of personal preference. As in most financial decisions, there is no "one size fits all".

There are several non tax considerations that must first be addressed. How long you plan to keep the vehicle is an important factor. If you keep a car for 10 years or longer, leasing is probably not for you since you have to purchase the car at the end of the lease period. If you keep cars for only a few years, then leasing might look more attrac-

tive. Another consideration is cash flow. Leasing usually requires less cash up front, and the lease payment will be lower than a loan payment since you return the car at the end of the lease period. Alternatively, you can lease a more expensive car for the same monthly payment as buying a less expensive car.

If you use a vehicle significantly for business, you will want to look at different criteria when analyzing the tax implications of the lease vs. purchase decision. To determine the most favorable tax benefit you'll need to compare the deductible portion of the monthly payment for the leased vehicle against the total of

the amounts deductible for loan interest and depreciation for the purchased automobile.

Other economic and personal factors impact the decision to lease or buy. High mileage can render a lease cost-prohibitive as can excessive "wear and tear". You may also be guided by a personal preference for ownership or non-ownership, or you may be presented with a particularly good deal for one option over another. But beware the salesman who casually states that you should lease because it's better for taxes.

Always check with us and we can help you make the best informed decision for your situation.

### How Long to Keep Tax Records

Tax returns and records such as receipts, cancelled checks and other documents that prove an item of income or a tax deduction appearing on your tax return should be kept until the statute of limitations expires for that tax return. Usually this is three years from the date the tax return was due or filed with the IRS. California has a four-year statute.

Since many tax returns are filed on extension after the due date, we generally recommend that you keep returns going back five tax years. Of course you should keep some tax records indefinitely, such as those relating to property or investments, since you may need those records to calculate the amount of gain or loss when sold.

## Tracking Home Improvements

As most homeowners are aware, the tax laws allow a married couple to exclude up to \$500,000 of gain on the sale of their principal residence (\$250,000 for a single person). When this exclusion was passed into law in 1997 it seemed like nobody would ever again have to worry about being taxed on the sale of their residence. But, of course, we had no idea home prices would rise like they have over these past years.

Here's something that can help. The gain on the sale of your residence is reduced by the cost of improvements you make to the home during all your years of ownership. Unfortunately, too many homeowners fail to keep adequate records of those expenditures. It's important to keep track of all improvements and to maintain documentation to substantiate your "basis" in your home. We recommend that you keep a file with your purchase closing statement and include receipts, cancelled checks, copies of building permits and other relevant documentation for each improvement. If you did the work yourself, the costs will include parts and supplies and other out-of-pocket costs.

If it has been several years since the improvement was done and you can't find the documentation, attach any evidence you can to substantiate that the improvements were made and how much they cost. For example photos of the improvement can be helpful, especially if you can show before and after photos.

An improvement adds to the value of the home or prolongs its useful life. Improvements must be differentiated from repairs, which maintain the home in good condition but don't add to its value. Improvements include additions, landscaping and new roofs, wiring, plumbing or flooring. Examples of repairs are repainting, fixing leaks, repairing roofs and replacing broken window panes. Since it's often difficult to determine if an expenditure is a repair or improvement, keep the record and we can help you make that distinction at the time that you are required to report the sale on your income tax return.

# ANSPACH FINANCIAL GROUP TAX AND FINANCIAL PLANNING

**SUMMER NEWSLETTER**  
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At Anspach Financial Group, we are committed to providing valuable and personalized services to each of our clients. We strive to solve complex tax and related issues by combining technical expertise with creative planning and problem solving. The experience, professional credentials and personal attention of our partners provide our clients with superior services at reasonable cost.

## Tax Calendar

### Tax Due Dates

- June 15** Second quarter estimated tax payments due.
- July 15** Formerly the first due date for extended partnership and fiduciary tax returns. The automatic extension is now 6 months (October 16 this year).
- August 15** Formerly the first due date for extended individual tax returns. The automatic extension is now 6 months (October 16 this year).
- September 15** Third quarter estimated tax payments due.  
Final filing due date for calendar year corporation returns on extension.
- October 16** Final filing due date for individual, partnership and fiduciary returns on extension.

### Anspach Financial Group Deadline Dates \*

- August 21** Deadline for calendar year corporations on extension to provide all required information to us to guarantee completed tax returns by September 15, the extended due date.
- September 11** Deadline to provide all required information for the preparation of individual, partnership and fiduciary returns to guarantee completion by October 16, the extended due date.

\* These deadlines are based on the large number of tax returns that we have on extension, the elimination of the interim extension due dates, and our vacation schedules. Please make arrangements to have us prepare your tax returns as soon as you possibly can.