

# ANSPACH FINANCIAL GROUP

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YEAR-END NEWSLETTER

NOVEMBER, 2007

## Reminders for 2007 Tax Filing Season

- ◆ Many of the online financial services companies such as TD Ameritrade and E\*Trade do not mail paper copies of 1099s to investors. They do, however, submit copies to the IRS. You will need to print out your 1099 documents from your online accounts and include them with the other tax information that we need to prepare your tax returns. You can also print out a statement of gains and losses when you access your account.
- ◆ If the cost basis of any securities sold in 2007 is not available on the tax documents provided by the financial services company, please provide this information when you submit your tax materials to our office. If you are unable to obtain this information, please contact us for guidance.
- ◆ Please provide us with all tax documents (W-2s, Forms 1099 of all types, Forms 1098 for mortgage interest and 1098-T for college tuition paid). We will also need settlement statements for purchases, sales or refinancing of real estate.
- ◆ If you are operating a business or real estate activity, be sure to let us know early in January if you want us to assist you with the issuance of Forms 1099-MISC for service contractors you have paid more than \$600 in 2007. Rents paid to business landlords are also reportable unless paid to a corporation.
- ◆ Registered Domestic Partners (RDPs) will be required to file California tax returns using married tax status beginning with the 2007 tax year. The two acceptable filing options are "married filing jointly" or "married filing separately". The federal government will not conform to California law, so RDPs will have a different filing status for IRS and California. RDPs are same sex couples over age 18 or opposite sex couples having at least one partner over age 62. The repercussions and questions arising from this new requirement will impact all RDPs. If you are a registered partner, we strongly recommend that you contact us ASAP to determine the implications of this new tax filing status.
- ◆ Charitable contributions require a receipt or cancelled check to be deductible for 2007. Contributions over \$250 must also have a letter of acknowledgement from the charitable organization. Additional documentation is required when total non-cash contributions exceed \$500 for the year. All amounts paid to charitable organizations are not deductible, so you need to read the fine print to determine the amount that is required to be deducted for goods or benefits received. We require our clients to attest to understanding these documentation rules as well as having the required records. For your convenience, we have posted a worksheet for tracking charitable contributions and a valuation guide for donated property on our Website.
- ◆ Private mortgage insurance premiums will be deductible for the first time for contracts entered into in 2007. Proposed legislation would extend this deduction for contracts entered into through 2015.

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### Special points of interest:

- IRS has tightened the requirements for deductible charitable contributions and we've provided tools on our Website to help you maintain the required documentation.
- Business owners need to make sure health insurance plans conform to the rules for the self-employed health insurance deduction.

## Self-Employed Health Insurance Deduction

Self-employed individuals (including S Corporation shareholders owning more than 2% interest) may be eligible to deduct 100% of health insurance premiums and a limited amount of long-term care insurance premiums as an “above-the-line” adjustment to income. To qualify as self-employed health insurance for purposes of the 100% deduction, the taxpayer must not be eligible to participate in any subsidized health plan maintained by any employer of the individual or of the individual’s spouse. The rules vary depending upon whether the taxpayer is a sole proprietor, partner in a partnership or S Corporation shareholder.

### Sole proprietors:

The rules for sole proprietors are the most flexible, since the health insurance plan or long-term care insurance plan does not need to be in the business name, but qualifies if held by the individual.

### Partners:

For a partner in a partnership to utilize the self-employed health insurance deduction, the plan must be in the name of the partnership, and the premiums must be paid by the partnership. The partnership deducts the premiums which are income to the partner, who in turn receives the deduction on his individual tax return.

### S Corporation shareholders:

For a shareholder of an S Corporation to qualify for this deduction, the rules get more complicated. The S corporation must establish the plan in its name. The premiums paid by the S Corporation are taxable compensation (included on the W-2), but not subject to FICA. The shareholders then deduct the premiums on their personal tax returns.

A problem arises with the sole shareholder/employee of an S Corporation. In California (and some other states), a corporation is not allowed to purchase a group health plan with only one participant. Since the corporation is not providing a fringe benefit (because it has no plan), there is no self-employed health insurance deduction for the shareholder.

Two possible remedies to this problem are:

- ◆ **Hire the spouse** - Employing a spouse means the S Corporation has two employees, and is therefore eligible to purchase a group health plan in the name of the corporation. However, the additional cost of premiums for a group plan over an individual plan may be prohibitive.
- ◆ **Health reimbursement plan** - The sole shareholder may adopt a Health Reimbursement Arrangement (HRA) that provides reimbursement for the shareholder’s health insurance premiums. This must be a written plan and may be interpreted as a health plan. Although there is no guarantee this will pass IRS scrutiny, it appears to be a reasonable attempt to work within the constraints of the rules. For these plans, the reimbursement is included in the shareholder’s W-2 wages and then deductible as self-employed health insurance on the personal return.

## Our Website Has Resources For You

- **Useful Forms and Tools** includes frequently used government forms and recordkeeping tools such as worksheets and links to other Websites.
- **FAQ** answers commonly asked questions.
- **Calendar** includes significant tax due dates and our company deadlines.
- **Newsletters** is an archive of our newsletters issued three times a year.
- **Links to Tax Agencies** connects you to frequently used government Websites
- **Your Privacy** details our privacy policy and provides our form necessary to release information to third parties.
- **Updates** has relevant “hot topics” and tax news updates between newsletters.

[www.anspachfinancialgroup.com](http://www.anspachfinancialgroup.com)

## Documents for Our Files

We maintain “permanent” files for our clients that include documents such as:

- ◆ Real estate purchase, sale or refinance settlement statements for basis and tracing purposes
- ◆ Basis in Roth IRAs and non-deductible IRAs
- ◆ Loss carryovers
- ◆ Basis for partners and corporation shareholders
- ◆ Copies of trust agreements that impact your taxes currently or in the future, particularly living trust agreements

We often do not have all of the documentation necessary to maintain as complete and accurate files as we would like, especially from newer clients. If you would like for us to track any of the above, please make certain we have all of the documentation to do so.

### Mortgage Debt Relief Legislation

Pending legislation may provide tax relief to the many taxpayers who have lost or are in jeopardy of losing their homes as a result of sub-prime loans that have created unexpected escalation of mortgage payments and subsequent foreclosures. Under current law, the debt forgiveness from foreclosure may be taxable. If enacted, this legislation would ensure that no taxable income would result from the discharge of mortgage indebtedness that is secured by a principal residence and incurred by its acquisition, construction or addition of substantial improvements.

An additional provision of this legislation tightens the rules for qualification of the personal residence sale exclusion, but only for those who convert existing second homes or rental properties to a principal residence. Under those circumstances, the full \$250,000 (single) / \$500,000 (married) gain exclusion would not be available until the property has served as a principal residence for five years.

## Year-End Tax Planning Opportunities

Although there is still uncertainty about whether and when Congress will extend provisions such as AMT relief and other important tax breaks, there are opportunities to save taxes as the end of the year approaches. A few of them are listed here.

- Coordinate security sales to offset losses with gains and gains with losses.
- If you are thinking of selling appreciated securities and your income isn't taxed at a rate higher than 15%, it may pay to wait until 2008. You may pay zero tax on long term capital gains in 2008 when your rate for 2007 would be 5%.
- If you own an interest in a partnership or S corporation, you may want to increase your basis to be able to deduct a loss from it for this year.
- Consider using a credit card to prepay expenses that can generate deductions this year.
- To take advantage of energy credits, you may want to make your energy saving improvement or purchase a hybrid vehicle before year end. However, beware that these credits can disappear if you are subject to Alternative Minimum Tax.
- If you are over age 70 ½, own IRAs and are thinking about making a charitable gift, arrange for the gift to be made directly by the IRA trustee. This benefit will not be available after 2007 under current law.
- Self-employed individuals may want to defer income to 2008 and employees may want to defer bonuses into the next tax year.
- Some self-employed retirement plans need to be set up before December 31.

Let us know if we can assist you with these or other tax planning opportunities.

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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 and staff provide our clients with superior services at reasonable cost.*

## Calendar

### Tax Due Dates

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|-------------|--|
| December 10 | 1st installment property tax payment due   |
| December 31 | Deadline for prepayment of State income tax, property tax and mortgage interest in order to accelerate deductions into 2007 tax year. <b>Caution:</b> Prepayment of taxes will not reduce federal taxes if you are subject to Alternative Minimum Tax. Consult your tax advisor to determine if you can benefit by paying deductible expenses prior to year-end. |
| January 15  | Fourth quarter estimated tax payments due  |
| January 31  | Final date for mailing Forms 1099 to recipients and Forms W-2 to employees<br>Fourth quarter payroll tax returns and annual payroll reports due  |
| February 28 | Due date for Forms 1099/1096 to be filed with IRS  |
| March 15    | Calendar year corporation tax returns due  |
| April 10    | 2nd installment property tax payment due   |
| April 15    | Due date for individual, partnership and calendar year fiduciary tax returns   |

### Anspach Financial Group Calendar

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| January 2 | Tax organizers mailed |
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