

# ANSPACH FINANCIAL GROUP

GARY ANSPACH, EA • SUSAN HARPER, EA • JACKIE THOMSON, EA, CFP®

YEAR-END NEWSLETTER

NOVEMBER, 2008

## Year-End Tax Planning Opportunities

There are opportunities to save taxes as the end of the year approaches. Planning becomes even more critical during the current period marked by economic turmoil and investment market volatility.

- Anyone who has had a loan modification, debt relief, or suffered a foreclosure should contact us to determine any tax consequences to help you to plan accordingly.
- The end of the year always offers the opportunity to coordinate security sales to offset losses with gains and vice versa. If you've experienced substantial declines in your investment accounts, you may want to sell some securities to recognize the tax loss. Keep in mind that you must wait a full 30 days before you buy back the security, or you will be subject to the "wash sale rules". If you have a low tax basis in a security due to a long holding period, you may want to sell part of your position and take advantage of the current depressed market and low capital gains tax rates. Be sure to consult with your investment advisor before making significant decisions about the sale of securities.
- With most investment accounts down an average of 25% this Fall, there's an excellent opportunity for converting all or part of an IRA account to a Roth IRA. Check with us first to make sure that you qualify.
- Consider increasing the amounts for your employer-sponsored flexible spending accounts if you set aside too little this year.
- If you own an interest in a partnership or S corporation, you may want to increase your basis in order to deduct a loss from it 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 of a hybrid vehicle before the year ends. Keep in mind, however, that these tax credits can disappear for certain autos or if you are subject to Alternative Minimum Tax (AMT).
- If you are over age 70½ and subject to the minimum distribution rules, consider using your IRA to fund your annual charitable gifts. Arrange for the gift to be made directly from the IRA trustee to the charity.
- If you own your own business now is the time to review your retirement plan and determine whether you want to modify it or set up a new one. Many retirement plans, including the popular "solo 401(k)", must be established by December 31 prior to the year they go into operation.
- Now is the time to determine if you can benefit from prepaying a 2009 obligation and accelerating the tax deduction into the 2008 tax year. The fourth quarter estimated state tax payment, January mortgage payment, and 2nd property tax installment are examples of expenses that can be paid before December 31, 2008 to shift deductions into the current tax year. We can run a 2008 tax projection to see if you may benefit from this strategy or if the AMT is likely to play into any potential planning moves.

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### Special points of interest:

- It's not exactly a silver lining, but there are some tax strategies available to take advantage of the investment market decline.
- In the ongoing attempt to narrow the "tax gap", IRS has launched a new audit program to reduce unreported income.
- Our calendar can help you remember the many tax due dates.

## IRS *Soft Audits*

As part of a trial program to identify unreported income, IRS will be sending 32,000 "soft contact" audit notices to taxpayers whose returns show discrepancies with other information reported to IRS. This new correspondence audit technique requests that taxpayers file amended tax returns (Form 1040X). IRS will then follow-up in the subsequent year to check for the same issue.

Please advise us immediately if you receive this new form CP2057 notice or any other communication from any tax agency.

## Electronic Passwords

In the event of your disability or death, how easily can your representative, executor or trustee access your electronic accounts? For most people, user names and passwords are a jumble of alpha and numeric combinations. It will save your family and responsible parties much aggravation and frustration if you consolidate your electronic information and make it available along with your will and/or trust documents.

You may want to take advantage of one of the online services that allows you to safely store and easily update all your user names and passwords.

## Reminders for 2008 Tax Filing Season

Many online financial services companies such as TD Ameritrade and E\*trade do not mail paper Forms 1099 to investors even though they do submit this information to IRS. You need to print your 1099 documents that are necessary for us to prepare your tax returns. A statement of gains and losses is also available when you access your account.

If the cost basis of any securities sold in 2008 is not available on your tax documents or year-end statement, please provide this information when you submit your tax materials to us. If you are unable to obtain that information, please contact us for guidance.

We ask that you provide us all the tax documents you receive such as W-2 forms, 1099s of all types, 1098s for mortgage interest and 1098-T for college tuition paid. It is not necessary to record the information contained in these documents in the tax organizer - the prior year information is listed as a reference for making sure that you have received all your tax information for the current year. We do ask that you complete the tax organizer for the areas for which we will not be able to obtain the information from tax documents. This includes the 2-page questionnaire, which helps us identify any additional missing information that may apply to the current tax year.

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 in the issuance of Forms 1099 for service contractors you have paid in excess of \$600 for the 2008 calendar year. (Rents you pay to non-corporation landlords are also reportable.)

Charitable contributions must have a receipt or cancelled check to be deductible. Contributions over \$250 must also have a letter of acknowledgement from the charity, and additional documentation is required when your total non-cash contributions exceed \$500 for the year. We require our clients to attest to understanding these documentation rules and to having the associated records. For your convenience, we have included a worksheet to track your contributions as well as a valuation guide for donated property on our Website under "Useful Forms & Tools".

Because of the sharp fall in real estate prices, the number of foreclosures and property abandonments have skyrocketed. Financial institutions will be issuing Forms 1099-C for "cancellation of debt" and Forms 1099-A for "acquisition or abandonment of secured property". If you receive one of these tax documents be sure to alert us as soon as possible. We anticipate that many of these will be issued either incorrectly or erroneously, and we want to help you get them corrected as soon as possible.

The 2007 tax filing season marked the first time that Registered Domestic Partners (RDPs) were required to file as a married couple for California purposes while maintaining their non-married status for federal tax purposes. 2008 will be the first year that newly married same-sex couples will be subject to these requirements. We learned that these returns took considerably more time to prepare and fine tune for maximum benefit to both parties. Please set up your tax appointment early in the year if this will be the first year that you are required to file under these complex rules.

Remember to go to our Website at [www.anspachfinancialgroup.com](http://www.anspachfinancialgroup.com) to find updates about relevant "hot topics" as well as a section on frequently asked questions. You can also find information about how we protect your privacy as well as many useful forms and tools.

## Accurate Information Standards

The standard to which we are held in providing tax advice was raised by recent legislation. This includes a likelihood that the information on your tax return will pass any future audit by a tax agency. We are not required to audit the information that you give us to prepare your tax returns, but we do need to make sure that you understand the parameters of allowable deductions and that you have the required documentation to substantiate the expenses.

The vehicle expense deduction presents one of the most difficult substantiation challenges. IRS requires that you maintain a **written** record of your business mileage and have receipts for all auto expenses. To calculate the allowable deduction, we ask you to give us both the business mileage and total mileage of each vehicle in addition to the operating expenses of that vehicle for the tax year. We don't have to inspect your mileage log(s) or expense receipts, but we do require that you furnish us a written summary of this information from records that you maintain.

If you say that your business mileage is "the same as last year", you are acknowledging that you do not have the required documentation for us to calculate an auto expense deduction for the tax return. This is not a new IRS requirement. What is new is the requirement for tax practitioners to have a high level of confidence that the documentation requirements have been met by the taxpayer.

The substantiation requirements for charitable contributions have been tightened, and you must have a cancelled check or receipt for all charitable gifts. Any contributions of \$250 or more must have a letter from the donee organization. As with auto expenses, we are not required to audit your receipts, but we must be assured that you have the necessary records.

Noncash donations such as clothing and household items require a receipt and an itemized list of items with their realistic resale value. If you have a total of more than \$500 of noncash items, you must provide us with the receipts we'll need to complete the required form for the tax return.

We always strive to work with you on obtaining the information and documentation required to secure an income tax deduction, and we will continue to do so. However, we are legally bound by this legislation.

### Still Time to Save a Tree

As we've reported in the last two issues of our newsletter, we now offer electronic delivery of the newsletter, tax organizers, and tax returns.

A postcard was included in the September issue for you to indicate your interest in electronic delivery of any or all of these forms. You can still call Cindi Jones, our office manager, and let her know if you would like to take advantage of any of these options.

(415) 457-5780  
[admin@anspachfinancialgroup.com](mailto:admin@anspachfinancialgroup.com)

## Things We Can Track for You

We maintain "permanent" files for our clients that include information and 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 carry-forward amounts
- 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. Incomplete information from new clients and the lack of tracking of information not pertinent to the current year tax returns are the primary reasons. If you would like us to track this information for you, please provide us with the necessary documents and information for storage in our electronic files.

## ANSPACH FINANCIAL GROUP *TAX AND FINANCIAL PLANNING*

**YEAR-END NEWSLETTER  
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818 Fifth Avenue, Suite 100  
San Rafael, CA 94901

Phone: 415-457-5780  
Fax: 415-457-5925  
www.anspachfinancialgroup.com

*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.*

### Calendar

#### Tax Due Dates

December 10	Final due date for first property tax installment
December 31	Deadline for establishment of 401(k) and other qualified retirement plans for 2009
January 15	Fourth quarter estimated tax payments due
January 31	Fourth quarter payroll tax returns and annual payroll reports due Final date for mailing Forms 1099 to recipients and Forms W-2 to employees
March 1	Due date for Forms 1099/1096 to be filed with IRS
March 15	Calendar year corporation tax returns due
April 10	Final due date for second property tax installment
April 15	Due date for individual, partnership, and calendar year fiduciary returns

#### Anspach Financial Group Calendar

Nov. - Dec. 15	Best time for year-end tax planning
January 2	Tax organizers mailed or e-mailed