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## Tax-Planning is a Whole Year Endeavor



Too many people only worry about taxes January-April, then are surprised with the results when the next season rolls around.

1. It's a little late for the Spring cleaning, but if you are planning to make donations of non-cash items (clothing, computer, furniture, etc.), you must have a record of both the 'good condition' and its value, regardless of any dollar limits.
2. Exemptions are available for those that find themselves providing care for aging parents. The dependency rules are followed, but for caregivers, this is often an overlooked benefit at year-end.
3. Don't make interest-free loans to the IRS. There is still time to adjust your wage withholding. If it's the refund 'windfall' that you want each Spring, let's look at adjusting your withholding and making an investment that pays **you** interest and is available for Spring withdrawals.
4. Now is the time to begin looking at your investment activity for the year. One way to limit the effect of capital gains taxes in any one year, is to 'harvest' losses by selling winners and losers strategically.
5. Beware of the 'kiddie tax.' The age on the kiddie tax is increasing to 19. See story inside for details.

## Funding that Retirement Mountain

Early and often applies to so many facets in life. As with other areas, this cliché is true for making sure you have what you want to retire.

A million dollars isn't what it used to be. Look at the price of groceries alone. Whether a million is enough to last you through retirement or not, it's a nice round goal to shoot for.

The easiest way to reach this goal is beginning early and make saving automatic. Treat it like your monthly

bills, to pay yourself out of each and every paycheck. Starting early is easier said than done, but if you have the option for a 401(k) with an employer that will match a portion, that is an immediate return on your investment.

Taxes are a painful necessity, but over the long-term, investments can make up for the cost of taxes and still post gains that will boost you toward your goal. In light of the recent mortgage woes,

there is a positive note in long-term investing. For any 10-year period since 1926, large company stocks have posted a gain 97% of the time. With this in mind, those of you who are 45 years or younger and plan to retire at age 65, you should invest almost entirely in stock mutual funds. As you approach retirement age, the mix in your portfolio should begin to become more conservative to retain the earnings you have made.

### SPECIAL POINTS OF INTEREST:

- ESTIMATED TAX PAYMENT DUE— SEPTEMBER 17!!
- There's still time for tax planning this year—Do It Now!
- Whatever your age in the working world, retirement should be a priority.



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## Tax Traps of Working at Home

Many of us dream of padding out to the kitchen, getting some coffee, and sitting down to a computer in front of the TV to work from home.

First, if you work for someone else, the home office arrange-



ment must be for the employer's convenience, not the employee's. To help prove this relationship exists, get a letter from your employer that states you are able to work from home and that it is, in fact, a condition of employment.

Second, expenses that you want to deduct for business must be 100% for the business. Home office deductions must be for expenses that are exclusively for the business, so an IRS agent asking whether you use your computer in your office 95% business/5% personal, or 50%

business/50% personal, is a trick question. Both answers are wrong. If you can't answer that your office and computer are 100% business related, the deductions will be negated.

If you qualify for home office deductions, then you will need to do some long-term planning before making the decision to sell your home. While this is not a reason, in itself, to stop the home sale process, you should be aware of the tax consequences of selling a house with home office deductions (pg 4).

ONCE YOU MAKE  
YOUR RETIREMENT  
\$1,000,000, HOW  
DO YOU MAKE IT  
LAST THROUGH  
RETIREMENT?

## College Planning Tips

### Planning Strategies for Parents' Income

1. Shift income (bonuses, capital gains, etc) to years prior to or after a student is in college.
2. Reduce Adjusted Gross Income (by up to \$3,000) by selling any capital assets that will generate losses the year

before filing the FAFSA

### Planning Strategies for Parents' Assets

1. Accelerate expenditures for large cash items, such as computers, home improvements, and payments on consumer debt in the year prior to filing the FAFSA
2. Don't withdraw from tax-

deferred retirement accounts for college expenses.

### Planning Strategies for Students

1. Make all investments in the name of the parents instead of the student.
2. Pay college costs by spending assets in the child's name before spending parents' assets.

## Make \$1,000,000 Last

Once you reach your retirement goal, how do you make sure that it will last throughout retirement? One way is an immediate annuity. An insurance company will guarantee payments for your lifetime or the lifetime of you and your beneficiary.

Naturally, the longer you wish to spread out payments (i.e. the joint life option), the lower your monthly income will be, but

there are also other payout options. Annuity contracts can be done for a period certain or life, whichever is longer.

Annuities can also be purchased to offer annual inflation adjustments, offsetting any purchasing power lost due to inflation. You can also set up systematic withdrawals and increase your amounts yourself to offset inflation. If you do this, most experts



**Once you reach your goal, have a plan for making it last**

agree that you should start with no more than 4-5% annually.

## Investment Life Stages

Retirement investing has been compared to running a marathon. But, it can also be compared to a juggling act. No matter what stage of your life, there will always be competing financial priorities to juggle. As my track coach used to say, a steady pace is much easier to maintain, then mustering the energy to sprint and try to catch up later in the race.

**20s: Student loans, car, retirement** Retirement is 40 or 50 years away, but this is the most important time to start. A single

\$2,000 investment, compounded at 8% average annual return will grow to \$93,803 in 50 years.

**30s/40s Diapers, day care, mortgage, retirement** Very tempting to replace retirement with toddler's day care and diapers, but with retirement still 30 years away, any savings would still have plenty of room to grow. A single investment of \$5,000 here, with the same return and 30 years will grow to \$50,313. Note how investing more money for a shorter period results in smaller total value.

**40s/50s Braces, college tuition, retirement** It's easy to put retirement on the back burner when juggling becomes more and more expensive, but remember that while you can borrow to pay for most of life's other expenses, you can't fund your retirement that way.



I WOULD SAY  
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A MARATHON.

## Tax Credit for Sending Kids to Day Camp

If you had to arrange for care of your child(ren) under 13 years of age during the summer, a popular solution is the day camp.

Camps where the kids stay overnight do not count, but the cost of day camps can be treated as expense toward the child and dependent care credit.

This credit is generally 20%-35%

of non-reimbursed expenses, depending on household income levels. For one child the credit can amount to up to \$3,000 and up to \$6,000 for two or more children.

To qualify for the 35% rate, your income must be under \$15,000. This rate drops, gradually, to 20% for those with incomes over

\$43,000.

This is a tax credit, non-refundable, but it does reduce your tax liability. This means that it can be used to reduce your tax bill to zero, but not less than zero (creating a refund). Credits, unlike deductions that lower your taxable income, are counted the same as if it was tax withheld from your paycheck.

## Kiddie Tax Changes and Implications

The Small Business and Work Opportunity Act of 2007 increased the age threshold for the 'kiddie tax' from 18 years to 19 years old (24 for full-time students). This affects dependents with unearned income.

For tax clients, this new law effectively eliminates most of the tax benefit of saving for college in the child's name.

For those clients who are saving

for a student's college education, there is some good news here—this law now means that you no longer have to choose between financial aid and tax benefits. This is one area where the financial aid calculations and tax implications, for a family, can both be improved, or at the very least not hurt a your situation by choosing one over the other.

The Expected Family Contribution formula for financial aid

weighs assets and income of a student at roughly five times the weighting given to the parents' assets and income. This being said, if your child has money saved in their name, it may now be very beneficial for you to move, or rollover, this money before the end of the year.

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## Selling Your Home (and your home office)



Selling your home in the market of today can be stressful. The number of foreclosures expected this year is upwards of 750,000, and next year's estimate is almost 200,000 more than that. Over the last year, home prices have been going down and sellers have been offering any number of incentives to entice the offers that they need.

For tax considerations, if you sell your home that was your principal residence for two of the last five years, then you qualify to exclude up to \$250,000 (\$500,000 for married filing joint) of the gain on the

sale of the house. In today's market that may not seem like a question even worth addressing, but there are consequences that may effect anyone who has taken the home office deductions.

The normally accepted method for the home office deduction is based on a percentage of the total square feet in the home. This percentage of the home that you've been using as the home office does NOT qualify as principal residence status. This means that if, for example, you were claiming 10% of your home as your office, then 10% of any gain at all on your house will be taxable.

In addition, any depreciation that you've taken on this home office in the past will be recaptured to the extent of any gain realized on the sale. This amount will be taxed at the 25%

rate. Hopefully, the optimistic side of this is that you've already claimed depreciation at the 28% rate or better, so the time value of money and the 3% spread to your benefit.

The solution here is long-term planning. If you plan to sell your home in the future, make sure that you don't qualify and claim a home office for at least 2 of the 5 years prior to the year of the sale in order to qualify for the gain exclusion.

Even in the housing market of today, there may be a bright spot to ease the pain. If you do sell your home for a loss, you're not allowed to take any loss deduction. But, if you had a home office in the house, then the business-loss deduction will be fully-allowable.