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 Volume 9, Issue 1



## ANNOUNCING...Our New Name CD Tax & Financial Partners, Inc.

### Inside this issue:

**Announcing Our New Name**

**Contact our Office for an E-Organizer**

**Tax Appointment Worksheet  
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**Miscellaneous Items**

**Who Pays Taxes in the United States?**

This year has seen many changes at the office of C&D Tax, Accounting & Financial Services. We signed a five year extension to our lease at our present location (Ellsworth & Main Street), replaced the 7-year old carpet with beautiful tile, rearranged offices and got new desks. We now have a conference room, and you will be hearing more about future "Lunch and Learns" and Mini-Seminars that we will be offering our clients after tax season. Topics will include Estate Planning, Long Term Care and other tax and financial issues.



Our new name is CD Tax & Financial Partners and we have updated our logo to a symbol that

better describes what we do here. Our primary business is Income Tax Preparation and Accounting Services for our business clients. However, Cheryl's main focus after tax season, in addition to assisting our business clients, is to help our clients manage their savings and investments, including free 401(k) reviews; IRA Rollovers, College Savings Plans, Fixed and Variable Annuities, Life Insurance, Long Term Care Insurance and Estate Planning. As usual, all of these items include discussions about the tax aspects of the decisions.

Make your appointment with Cheryl after tax season, so she can help you "Catch your Dreams"!!

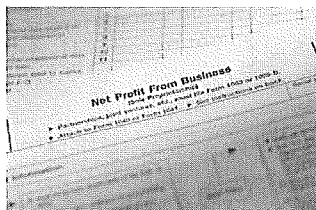
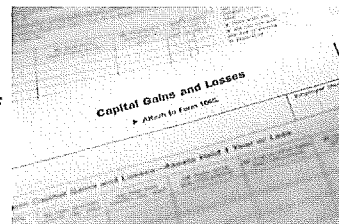
## Contact our Office for an E-Organizer

Previous clients of CD Tax & Financial Partners can call today, and we will e-mail you an E-Organizer or mail you a paper organizer to help you to gather your tax information.

Information about your tax return can be entered directly into the E-Organizer and e-mailed back to our office. Information about your previous tax return is already entered, and gives you a "check-list" of what was used on last year's tax return.

Using E-Organizer saves time by allowing you to gather the information about your 2005 income tax return in the privacy and comfort of your own home. We will contact you about any items that are missing in your E-Organizer. We will still need the paper documents, such as W-2's, 1099's, etc.

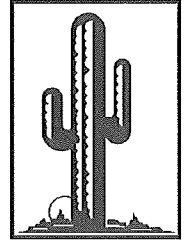
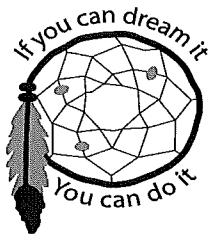
These can be dropped off at the front desk of our office or you can bring them in with you for your appointment..



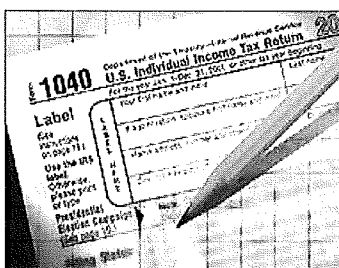
Just e-mail the E-Organizer to our office and request an appointment. We will already have the basic information, and can then spend your appointment discussing questions or other tax or investment issues.

If you are not a previous client or do not wish to use the new E-Organizer, we will be happy to send you a paper organizer. Contact our office today!!

If you would like an E-Organizer, e-mail [cheryl@cdtax.com](mailto:cheryl@cdtax.com) with your e-mail address and the E-Organizer will be sent to you immediately.

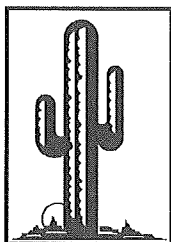


Event	Documents or Information Needed
1 Married or divorced in 2005	Married - prior year return of both spouses Divorced - copy of the divorce decree
2 Birth or adoption	Social Security cards and adoption papers
3 Death of a child or spouse	Date of death and death certificate
4 Additional member of household	Date of occupancy and relationship
5 Job Change	W-2s from new and old employers
6 Unemployment	Unemployment Form
7 Retirement contribution	Type of plan - amount of contribution
8 Retirement distributions	Forms 1099-R
9 Social Security benefits	Form 1099-SSA
10 Sale of stocks, bonds, etc.	Form 1099-B or other sale documents; basis or original costs
11 Purchase of stocks, bonds, etc., personal residence, or other real estate	Purchase documents, closing papers
12 Inheritance	1099-R from annuities, K-1 from the estate
13 Trade any property (Like Kind Exchange)	Date of trade, property given up and property received, basis and FMV; Qualified intermediary sales agreements or closing papers
14 Start or end a small business	Formation or termination dates; Property contributions or distributions
15 Lawsuit settlements	Date received; reason for the settlement; 1099-MISC
16 Rental property	Income; expenses; new property purchased
17 Prizes	Form 1099-MISC; value of prizes not included on Form 1099-MISC



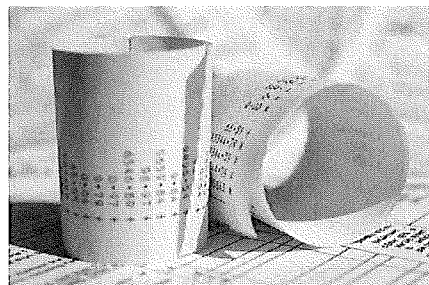
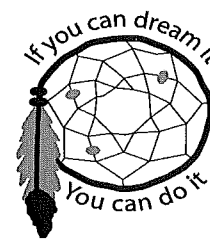
**If you cannot afford to pay your tax liability:**

- File the tax return on time. This stops the "Failure to File" penalty
- File a form 9465 Installment Agreement Request. This allows you to choose the monthly payment you want to make and the date on which the payment is to be made.

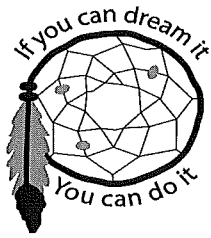


A few extra suggestions....

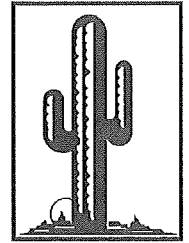
- We do not need to see all of your receipts. Add them up and bring us your totals. Extra fees will be charged to add up your receipts.
- Don't forget to bring the amount you paid for your car tags (the Vehicle License Tax on each of your cars, motorcycles, etc). This is the most often forgotten item in the tax appointment.
- If you purchased a new car this year, bring in the purchase paperwork, so we can deduct the sales tax.



Event	Documents or Information Needed
<b>18</b> Lottery or gambling winnings	Total amount won whether on W-2Gs or not; total amount of losses
<b>19</b> Health insurance, medical, dental or drug expenses	Health insurance premiums; if it is an employer-sponsored plan, know whether it is paid with pretax dollars; totals of other medical, dental and drug expenses
Medical Miles (14 cents/mile) Medical Miles (22 cents/mile)	Before 9/1/05 On or after 9/1/05
<b>20</b> State income or property taxes paid	Prior year's income tax return; property tax bills; closing papers from the purchase or sale of property; letter from the state regarding any change in a prior filed return
<b>21</b> Purchase or refinance a home	Closing papers from purchase; Forms 1098
<b>22</b> Charitable contributions of money, property, or out-of-pocket expenses	Date and type of contributions, knowledge that receipts from the organizations have been received; mileage log for charitable work
Charitable miles (14 cents/mile) Katrina Charitable miles	During 2005 - Keep separate - different treatment
<b>23</b> Job-Related expenses	Mileage log, travel or misc expense amounts for items related to employment
Business miles (40.5 cents/mile) Business miles (48.5 cents/mile)	Before 9/1/05 On or after 9/1/05
<b>24</b> Educational or student loan interest expenses	Form 1098-T for parents or children; interest record for student loans
<b>25</b> Child or disabled spouse care	The name, address, and ID number of the day care provider; the amount paid to the provider; if the provider comes into your home a W-2 may be required



# New in 2005: QUALIFYING CHILD



The rules for determining dependency have been revised. To be a dependent for 2005 the potential dependent must be either a **qualifying child** or a **qualifying relative**.

The IRS has created a uniform definition of a **qualifying child** for the purposes of the dependency exemption, the child tax credit, the earned income tax credit, the dependent care credit, and head of household filing status.

**Qualifying Child must meet the following tests:**

- Residency Test
- Relationship Test
- Age Test

**In order to qualify for the following credits:**

- Earned Income Credit
- Child Care Credit
- Child Tax Credit

A child is a **qualifying child** under the uniform definition provided **each** of the following tests are satisfied:

**1. Residency Test -**

The child has the same principal place of abode as the taxpayer for more than one-half of the taxable year. Temporary absences due to special circumstances, including illness, education, business, vacations, or military service are not treated as absences.

**2. Relationship Test -** The child has a specified relationship to the taxpayer. The child must be the taxpayer's son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, or a descendent of such individual. An individual legally adopted by the taxpayer, or an individual who is placed with the taxpayer by an authorized placement agency for adoption by the taxpayer, is treated as a child of such by blood. A foster child who is placed with the taxpayer by an authorized placement agency or by judgment, decree, or other order of any court is treated as the taxpayer's child.

**3. Age Test -** In general, the child must be under the age of 19, or 24 if a full-time student. Present age limits remain in place for other provisions.



The child must be under the age of 13 for the dependent care credit and under age 17 for the child tax credit.

If the potential dependent does not qualify as a **qualifying child**, then there are four tests that must be met for a person to be your **qualifying relative**. The four tests are:

**1. Not a Qualifying Child Test -** A child is not your qualifying relative if the child is your qualifying child or the qualifying child of someone else.

**2. Member of Household or Relationship Test -**

To meet this test, a person must either live with you all year as a member of your household, or be related to you in one

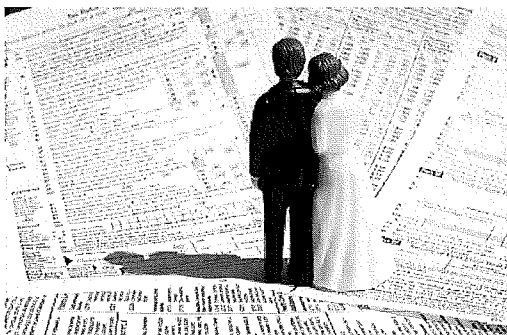
of the ways listed under *Relatives who do not have to live with you* (2005 IRS Publication 17, p.28).

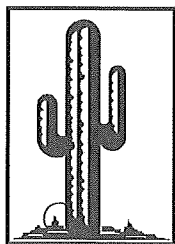
**3. Gross Income Test -** To meet this test, a **qualifying relative's** gross income for the year must be less than \$3,200. This amount is less than the exemption amount.

**4. Support Test -** To meet this test, you generally must provide more than half of the **qualifying relative's** total support during the calendar year.

The distinction between **Qualifying Child** and **Qualifying Relative** is that the **Qualifying Child** designation allows the taxpayer to claim the Earned Income Credit, the Child Tax Credit and the Child Care Credit. The **Qualifying Relative** designation does not.

**The Head of Household status** has changed as a result of the changing definition of a **qualifying child**. In order to claim HH status, the taxpayer's home must be the home of a **qualifying child** as defined above. The HH status is still available in circumstances other than when having a child, such as when claiming a parent when the taxpayer provides more than one-half of the cost of maintaining the parent's home.





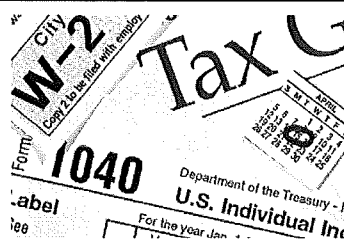
## Miscellaneous Items

*If there is an agreement in your divorce decree that dictates who is allowed to claim your child as a dependent each year, new IRS rules dictates that we must have a copy of your divorce decree in our files.*

If you are an educator, you may be able to deduct up to \$250 of expenses you paid for purchases of books and classroom supplies, even if you don't itemize your deductions. These out-of-pocket expenses may lower your tax bill.

Qualified expenses are unreimbursed expenses you paid for books, supplies, computer equipment (including related software and services), other equipment, and supplementary material that you use in the classroom.

IRA distributions to cover higher education costs for a yourself or a dependent are penalty free - NOT TAX FREE. A wide variety of expenses are covered under this exception: college tuition, course textbooks, and the cost of room and board, if the student is carrying at least 50% of the normal course load. Unfortunately, a computer is not eligible, unless students are required to have one, the Tax Court decided.



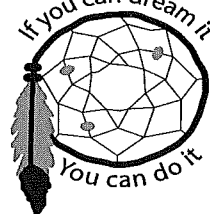
*When you file an extension of time to file for your 2005 Income Tax Return, you will have a six-month extension of time to file (Until October 15 instead of August 15). This does not extend your time to pay, however! Payment must go into the IRS with the six-month extension by April 17, 2006.*



### Stat Bank

- 27 - the percentage that pension under-funding at major US companies rose from 2003 to 2004.
- 18 - the number of years average worker spent in retirement in 2003 versus less than 12 years back in 1950.
- 60 - the percentage of Americans age 75 and older who say they depend on Social Security for more than half of their income.
- 40 - the percentage of Americans age 62 to 74 who say they depend on Social Security for more than half of their income.
- 3 - the percentage of taxpayers who contribute to individual retirement accounts (IRAs) in any given year, versus 16% in 1986. The primary source of new dollars into IRAs is roll-over funds.

A survey by Allianz Life Insurance Company found that Americans 65 and over are seven times more likely than 40 to 59 year olds to think they owe their kids an inheritance. Many baby boomers believe a non-financial legacy, such as beliefs on ethics and morality, is more important. (Which is nice, and the kids can't use it to buy a new red sports car!)



**We file your return electronically - Get your Refund Fast - Use Direct Deposit!!**

### Did you Know?

#### Tax Cheating is on the Rise

- \* IRS is ramping up audits and collection efforts, including private debt collection agencies. The number of taxpayer audits has increased 37% since 2001.
- \* Specifically, the IRS is looking at Self Employed persons, tipped employees, gamblers, Partnerships and S-Corporations.
- \* For S-Corporations, they are primarily focusing on whether the owner has been paid on a W-2 and how much that was, in relation to the overall income.

*IRS enforcement activities have been increasing and there is pressure for more from Congress and the Administration. They are concerned about the apparent trend of worsening compliance by self-employed proprietors in the form of understated gross receipts and improper deductions for bad debts and vehicle expenses.*

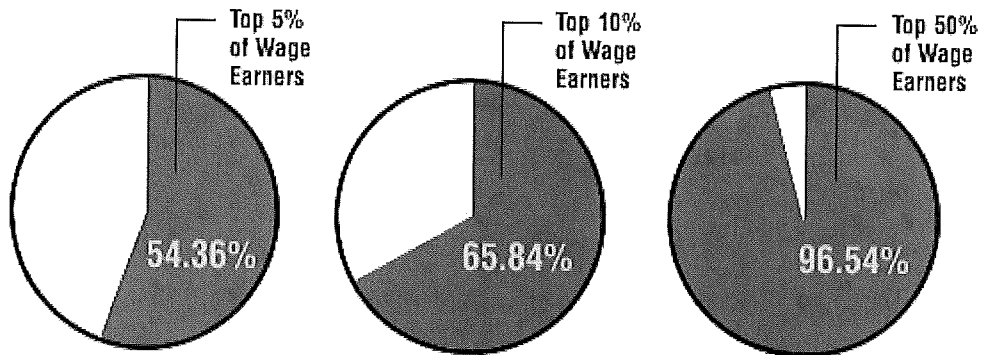


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## Who pays taxes in the United States?

### All Federal Income Taxes Paid in the United States



Source - Internal Revenue Service 2003 - Data covers calendar year 2003, not fiscal year 2003  
- and includes all income, not just wages, excluding Social Security