

Tax

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Tax Filing  
Season—2009

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Welcome to the 2009 Income Tax Filing Season at CD Tax & Financial Partners.

Our office hours during this tax season will be Monday through Friday 7:30am to 6:30 pm and Saturday 8am to 3pm. We have changed our weekday hours slightly to better serve the needs of our clients.

The Red Mountain Loop 202 is finally open next to our office. If you are coming from the north, take the University exit, cross over University and turn left on Main St (Apache Trail). If you are coming from the south, take the Broadway exit, cross over Broadway to Main St (Apache Trail) and turn right. It has been several years since we have had no construction around our office—hopefully that will continue through this tax season.

If you would like a tax organizer, please call our office and we will send you one. Many clients find organizers useful to gather up their tax information. We offer both paper organizers and electronic organizers. Call Vanessa at 480-354-1040 to get your organizer today!

Did you start a business this year? If so, please contact Nancy, our Accounting Man-

ager as quickly as possible. She will assist you in determining the best way to document your information in order to get the business portion of your tax return completed accurately.

Remember to add up your receipts. This enables us to spend the time in your tax appointment discussing your tax return and any changes that might be useful to you.

Many of our clients choose to drop off their tax information. Please remember to highlight any changes, such as addresses and phone numbers. We also need to know if you have added or dropped any of your dependents. If you have a new dependent, we need to see the Social Security card. If your spouse has passed away this year, we need a copy of the death certificate. If you have divorced this year, and have custody agreements in the divorce decree, we need a copy of that portion of the decree. We strive to prepare accurate tax returns, so make sure we are made aware of any changes in your life that impacts the income tax return.

Call and make your appointment today! We look forward to seeing you and helping you with your income tax needs again this year. Don't forget—we love and reward referrals!!

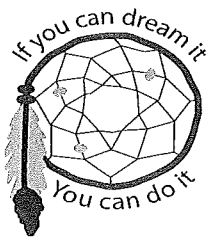


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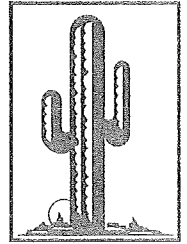


The certification marks above are owned by Certified Financial Planner Board of Standards Inc. and are awarded to individuals who successfully complete CFP Board's initial and ongoing certification requirements.

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Advisory Services offered through Jonathan Roberts Advisory Group



## Requirements for Non-Custodial Parent Claiming Child as a Dependent



To claim a child as a dependent, a non-custodial parent must attach Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents*, to his or her tax return. Failing that, a substitute for the form must be attached. The IRS says the substitute can be a decree or agreement that states all three of the following:

- ◇ The non-custodial parent can claim the child as a dependent without regard to any condition, such as payment of support.
- ◇ The other parent will not claim the child as a dependent.
- ◇ The years for which the claim is released.

If the decree or agreement has a condition, it cannot be used as a substitute for Form 8332. In *William N Ward v. Commissioner*, a separation agreement provided the father could claim the dependency exemptions for his two children "so long as [petitioner] is current in the payment of his child support obligations." The father was current, but the mother claimed the children as dependents on her 2004 tax return. The taxpayer also claimed them as dependents on his 2004 tax return and attached a copy of the separation agreement to the return.

Because of the stipulation that the father be current on his child support obligation, and because there was no statement that the mother would not claim the children as dependents, the IRS claimed that the separation agreement does not meet the criteria to be a substitution for Form 8332. The court agreed.

What's the solution? In this case, the father instituted legal proceedings against the mother to enforce the terms of the separation agreement. The mother was required to pay the father \$2,426, the resulting tax effect of claiming the children as dependents. This court noted any future problems the father may have with the mother in this regard would be more adequately and effectively remedied in the civil courts.

For non-custodial spouses, make sure the wording on the divorce decree is tailored to meet the IRS requirements and make sure we have a copy of the divorce decree on file. If the wording does not meet the above mentioned criteria, contact our office today for a Form 8332, *Release of Claim to Exemption for Child of Divorced or Separated Parents* to be signed by the custodial spouse.

## Certified Quickbooks Professional Advisors

CD Tax & Financial Partners is proud to announce that both Cheryl Wilson, Owner, and Nancy Melbourne, Accounting Manager, are Certified Quickbooks Professional Advisors.

We have taken study courses and tests through Intuit, which created Quickbooks, to obtain this certification.

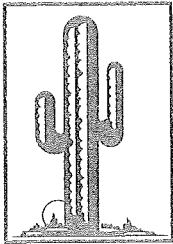
We are experts in helping a small business learn, use, and customize Quickbooks. We became certified to better help our small businesses customize Quickbooks for their unique needs and help them get the most out of the software. We are also a great resource if you run into trouble with Quickbooks. Our fees are reasonable and many of our Quick-

books clients feel the investment is valuable.

Users of Quickbooks quickly realize that this software is a valuable business management tool. You can quickly track your customers, vendors, payroll and many other functions using this software.

Many of our clients come in and get trained to use Quickbooks, and then only see us occasionally throughout the year to ask questions or assess the potential income tax liability for the year.

If you are in business or are considering starting a business, contact us today! Small businesses are our specialty.



## First-Time Homebuyer Credit



This title might be better termed a "Loan" instead of a "Credit" since it is a refund that a taxpayer can receive but has to repay. Here are the details:

This refundable credit is equal to ten percent of the purchase price of a qualifying taxpayer's principal residence, with a maximum credit not to exceed \$7,500 (\$3,750 for Married Filing Separate returns). The amount of the credit is reduced for a taxpayer with a modified AGI of over \$75,000 (\$150,000 for Married Filing Joint tax returns).

The credit is only available to properties purchased on or after April 9, 2008 and before July 1, 2009.

A "first-time homebuyer" is a taxpayer (and spouse if the taxpayer is married) who has had no present ownership interest in a principal residence during the three-year period ending on the date of the purchase of this principal residence.

The credit is really more like a loan. The taxpayer who claims this credit faces a recapture tax of the entire credit amount spread over the recapture

period of fifteen years. This recapture tax increases the taxpayer's income tax each year by an amount equal to 1/15th (6.67%) of the credit amount. The recapture continues for fifteen years until the entire credit is repaid.

If the taxpayer ceases to use the property as a principal residence, the balance of the credit that has not been recaptured is paid on the return for the year of the move.

If the taxpayer disposes of the property before the end of the recapture period, the taxpayer is required to repay any credit not already paid. The amount of the recapture paid due to a disposition is limited to the taxpayer's gain on the disposition of the property.

The recapture rules do not apply in the event of the taxpayer's death (in any year *after* the taxpayer's death), involuntary conversion (recapture goes to new property) or divorce (recapture stays with the property). For further information about these circumstances, please contact our office.



### Do We Have Your E-mail Address?

CD Tax & Financial Partners started e-mailing newsletters to clients this year. Titles of e-mails sent out included:

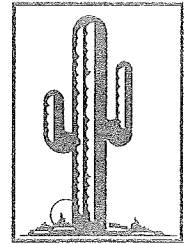
- ◇ 2008 AZ State Tax Credits
- ◇ Six Steps to Get out of Debt
- ◇ IRS Phishing Schemes
- ◇ The Ins & Outs of Life Insurance
- ◇ Checking up on Variable Universal Life
- ◇ Four Words You Shouldn't Believe
- ◇ Stay Calm
- ◇ Do Your Investments Match Your Risk Tolerance?

- ◇ Lessons for Future Millionaires
- ◇ Information about the IRS e-mail scams
- ◇ Making Investment Decisions
- ◇ Tax Efficiency
- ◇ Identity Theft

If you would like to be included in our e-mail newsletter list, please call our office or send an e-mail to [Vanessa@cdtax.com](mailto:Vanessa@cdtax.com) to be added to our e-mail list. She can also send you any of the newsletters mentioned in this article.



## Cancelled Credit Card Debt is Taxable Income to Debtor



Ancil Payne had opened an account with a credit card company and, during periods of unemployment, received cash advances from the credit card to pay living expenses and hospital bills. By April of 2004, Mr. Payne had amassed over \$21,000 of credit card debt. In November, 2004, the taxpayer entered into an agreement with the credit card company to pay \$4,592 as a full settlement of the account balance of \$21,270. Mr. Payne paid the settlement amount in full and the credit card issued him a Form 1099-C, *Cancellation of Debt*, reporting \$16,678 of discharge of indebtedness income. The taxpayers were not insolvent in 2004, nor did they file for bankruptcy.

No property is involved in this transaction. The only relationship between the taxpayer and the credit card company is that of debtor and creditor. Therefore, this "forgiveness of debt" is considered income to the taxpayer and must be reported on the income tax return.

If you receive a 1099-C, Cancellation of Debt or a 1099-A, Acquisition or Abandonment of Secured Property, please bring these in with your other tax documents. The tax treatment of these two items are different, but the information on these forms must be included on the income tax return.



## Cracking the Nest Egg: 7 Tax-Wise Ways to Tap a Portfolio

**Early retirees: Avoid selling stock.** If you have elected to receive Social Security benefits at the earliest possible time [age 62 for most people] you should not sell appreciated securities in taxable accounts, if at all possible.

By avoiding those gains, you can keep your Adjusted Gross Income lower, which reduces the tax owed on the Social Security benefits.

Also, if you do not sell these securities and you die owning them, your heirs are entitled to a basis step-up under current law. In that case, no income tax will be due on the investment appreciation during your lifetime.

**Take IRA distributions later rather than sooner.** If you wait until age 70 1/2 to begin your withdrawals, the IRA will continue to compound on a tax-deferred basis. When taking lump sum distributions, please contact Cheryl to discuss the tax ramifications of these withdrawals.

**Take unrealized capital losses in taxable accounts.** When accessing money in non-IRA accounts, the first step should be to sell stocks and mutual funds that carry unrealized capital losses. Such losses can produce a \$3,000 annual deduction against ordinary income. Excess losses can be carried forward to future years. If you die with stock "losses" in taxable accounts, the unrealized capital loss won't provide any tax benefit

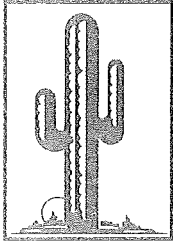
and the capital loss carryover extinguishes.

**Bank on CDs for income.** Next, you should use up income-producing assets, such as bank CDs. That way, they reduce tax bills these investments generate and allow tax-advantaged assets to remain untouched.

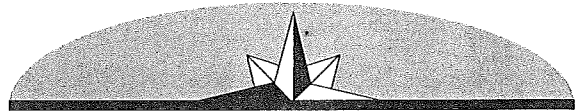
**Cash in Savings Bonds after CDs.** When you redeem US Savings Bonds, they trigger all the deferred income tax due on the bonds. By waiting to redeem those bonds as long as possible, you benefit from ongoing tax-deferred interest accumulation.

**Realize capital gains later in life.** While the basis for appreciated stock is stepped up after death, US Savings Bonds generate income "in respect of a decedent" and will be taxed after death. You might as well cash them before taking gains on appreciated stocks.

**Break open IRA as a last resort.** If you have substantial amounts of appreciated securities, you can withdraw money from an IRA before taking gains in a taxable account. As long as the stocks in taxable accounts produce low dividends the annual tax burden won't be that great. An exception to this rule is tax-inefficient mutual funds that regularly generate capital gains distributions. Those funds should be liquidated before tapping into the IRA.



*In 2008, even if you take the Standard Deduction, we need to know the amount of Real Estate taxes you paid on your personal residence. This is added to your Standard Deduction!!*



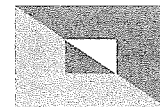
### Isn't Anyone Listening?

Efforts by the financial planning profession to persuade retirees to go easy on their retirement account withdrawals are falling on a lot of deaf ears.

While the profession routinely advises retirees to keep withdrawals to an initial 4 to 5 percent rate, adjusted annually for inflation, a new survey from Wachovia's Retail Retirement Group found that:

- 28% of surveyed retirees annually withdraw 10% or more of their retirement savings (average savings: \$375,000)
- Only 38% withdraw 5% or less
- Despite higher-than-advised withdrawal rates for a majority of retirees, 91% feel confident or very confident their savings will last

*IRS tinkers with audit machine: Look for changes in IRS audit techniques. Instead of waiting several years to conduct vast numbers of line-by-line exams, the IRS intends to focus on a few thousand random audits each year. This will allow examiners a "fresh look" at new data annually. It also will help the IRS pinpoint potential problem spots faster than before.*



### "Working-Class" Millionaires

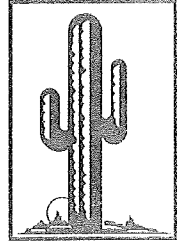
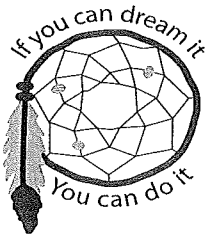
Great—these days one has to make \$25 million or more to be a "real millionaire"

That's what the Spectrem Group found in its study, "The Millionaire Investor." Guess what are the two most prevalent careers among those worth \$1—\$5 million (not including their primary residence)? Managers, (20%) and educators (11%). Millionaire educators?

Its only when we get into the \$25 million-and-above range that we see the careers we most associate with millionaires: entrepreneur/business owners (30%), and senior corporate executives (27%).

## Standard Mileage Rates for 2009

- ◆ Business—55 cents per mile
- ◆ Charitable Contribution—14 cents per mile
- ◆ Medical and Moving Expenses—24 cents per mile



## 50 Years of Good Work

Many Americans who retire this year at age 66 with full Social Security benefits will have clocked 50 years in the workforce. Here is a snapshot of their work history.

### DAILY GRIND

- The alarm clock rings: **12,500 mornings**
- Friday night happy hours: **2,500 get-togethers**
- Job changes: **10**
- Relocations: **2**
- Had an office romance—**40%**
- Office romances that resulted in marriage: **45%**

### TOTAL TIME

- Spent Commuting: **1.3 years**
- On vacation: **1.4 years**
- Out sick: about: **2 years**
- On a paid holiday: **285 days**

### EARNINGS

- Minimum weekly wage in 1958: **\$40 (\$217.20 in today's dollars)**

- Median weekly pay today, men 65+: **\$685**
- Median weekly pay today, women 65+: **\$534**

Lifetime earnings with:

- High-school diploma: **\$1.2 million**
- Bachelor's degree: **\$2.1 million**
- Medical or Law degree: **\$4.4 million**

### RETIREMENT

- Have a 401(k): **22%**
- Have a company pension: **32%**
- Will rely only on Social Security income: **25%**
- Average monthly SS payment: **\$1,094**
- Average monthly SS payment to spouse: **\$390**
- Average household wealth: **\$597,926**
- No 1 reason for retiring: **to spend more time with family**
- Expect to work after retirement: **54%**

Source: AARP Bulletin, November, 2008



## Hobby vs Business: What You Need to Know

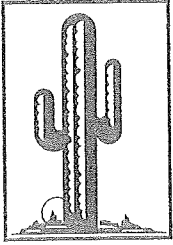
The IRS issued Fact Sheet 2008-23 in June of 2008 titled *Is Your Hobby a For-Profit Enterprise?* The IRS has compiled a list of questions the taxpayer should ask him or herself as to whether an activity is engaged in for profit or a hobby:

- Does the time and effort put into the activity indicate an intention to make a profit?
- Do you depend on the income from the activity?
- If there are losses, are they due to circumstances beyond your control or did they occur in the start-up phase of the business?
- Have you changed methods of operation to improve profitability?
- Do you have the knowledge needed to carry on the activity as a successful business?
- Have you made a profit in similar activities in the past?
- Does the activity make a profit in some years?

- Do you expect to make a profit in the future from the appreciation of assets used in this activity?

If an activity produces a profit in three out of five years, the activity is considered a trade or business and can be reported on the business return. If the activity is for horse breeding, racing, training, or showing, it must make a profit in two out of seven years.

If the activity is deemed a hobby, the income is reported on Line 21 of Form 1040 and the expenses of the hobby cannot exceed the income. Hobby related expenses are reported on Schedule A in the Miscellaneous Deductions Subject to 2% of AGI section. This may cause a taxpayer who actually breaks even on the hobby activity to pay income taxes on the hobby.



## Long Term Care Insurance



### What is Long Term Care?

Long-term Care (LTC) is the assistance provided to someone with a prolonged physical illness, a disability like a stroke, or a cognitive impairment such as Alzheimer's disease. Or, it may just be the result of growing older and becoming frail.

LTC helps people with the activities of daily living defined as bathing, dressing, eating, toileting, incontinence and transferring. It also provides supervision for those who have difficulty with reasoning, orientation or memory.

### Why is Long-Term Care so Important?

Because we are living longer and the longer we live, the greater the chance that we'll need LTC.

If we haven't planned how we would pay for LTC, our families and friends could become caregivers and our retirement income and assets could be spent to pay for the cost of our care when family and friends can no longer manage to do so.

### What is Long-Term Care Insurance?

Long Term Care Insurance (LTCI) is a plan that transfers the risk of LTC expense to an insurance policy.

### Facts and Stats about LTC

- Statistics show that one in two Americans over age 65 will require long term care
- Many people think that long-term care is an end-of-life issue for the elderly. Today, 37% of those receiving care in the U.S. are under the age of 65.
- The average cost of a private room in a nursing home in the U.S. is \$194.28 per day or \$70,912 annually.
- The average stay in a facility is 2.4 years. At today's rates that pushes the cost of a facility stay to \$170,189.

### Before You Sign Up

Learn what's important in a LTCI insurance policy. First and foremost is the company. Be sure it has billions in assets and superior industry ratings.

You'll want to know if your plan is tax qualified so you'll know how the IRS will treat premiums and benefits paid.

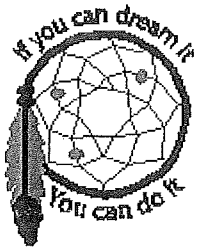
One of the most important options is inflation protection. It's expensive, but it does protect you against rising nursing home costs.

You'll also want to know how claims are paid. There are three methods: reimbursement, indemnity and cash. Each is different and each offers specific benefits:

- **Reimbursement** pays the amount of covered services up to the benefit amount.
- **Indemnity** pays the full benefit amount with proof of service.
- **Cash** pays the full benefit amount without proof of service.

If you are interested in the benefits and costs of Long Term Care Insurance, call Cheryl or plan to discuss this with her at your tax appointment. She has partnered with a Long Term Care professional in the East Valley who ONLY sells Long Term Care Insurance. She can design a plan just for you, based upon your unique health history and financial goals. This will help you protect the income and assets that you've set aside for retirement, and safeguard you and your family from the potentially devastating cost of long-term care.

**The cost of long-term care is now considered the greatest single threat to financial security in our retirement years!**



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**We LOVE and APPRECIATE  
referrals—Please don't  
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