Wi$e Up Teleconference Call
March 31, 2006
Understanding Taxes: Make the Most of Your Return
Questions and Answers

Angela Rizzolo: I’m going to ask now if Christy has any questions for us.

Coordinator: At this time, if you’d like to ask a question, please press star then 1 on your touchtone keypad. You will be required to lift your handset prior to pressing star-1. To withdraw your question, please press star-2.

Once again, that’s star-1 if you’d like to ask a question and star-2 to cancel.

One moment, please, while the questions register.

Jane Walstedt: Angela, this is Jane Walstedt. While we’re waiting for the questions to start, I’d like to ask a question of Michael concerning long-term care.

Angela Rizzolo: Sure.

Jane Walstedt: Michael, at what age should people start to purchase long-term care insurance? And isn’t it true that it applies not just to people when they’re older but if somebody were to become disabled younger, say permanently disabled, would it be better to have long-term care insurance or disability insurance?

Angela Rizzolo: Michael?

Michael Schulman: I’m here.

Angela Rizzolo: Oh, okay.
Michael Schulman: Can you hear me?

Angela Rizzolo: There was dead space here.

Jane Walstedt: Did you hear the question, Michael?

Michael Schulman: Yes, I did.

Jane Walstedt: Okay.

Michael Schulman: Yes, I did. You want to know my hourly rate, I think, for tax preparation. Was that it?

Jane Walstedt: No, no, no.

Michael Schulman: I know. You want to know about long-term care?

Jane Walstedt: Right.

Michael Schulman: Okay. I typically recommend long-term care to my clients once they reach age 50. Before age 50, they have other financial obligations; for example, life insurance; for example, college tuition, mortgages, whatever, and they’re not thinking about their mortality.

Age 50 to me, you start to become an older adult, and you have to look forward. You start to see your parents in their 80s; you see what kind of financial pressures they are going under, possibly. So that’s why I start to approach clients at age 50.

Another reason is that at age 50, the premiums are relatively low. And one thing about long-term care is, in general, premiums don’t go up as
much as premiums with other types of insurance. So if you can get a lower premium rate at age 50 -- and remember, long-term care is harder than other types of insurance to be qualified for.

To be underwritten for, you have to be in much better health. You can always get life insurance. You can’t always get long-term care. So when someone’s 50 and they’re in relatively good health, then it’s time to go ahead and get that policy.

In terms of what it’s useful for, it’s not necessarily - it’s not disability insurance. To qualify for long-term care, you must be unable to perform typically two of five what’s called activities of daily living -- dressing, walking, eating, bathing, toileting, in some cases transferring from one place to another. And if you can’t do two out of the five and if the physician certifies that, then the policy starts to pay. You don’t have to be disabled.

And it’s not just nursing home insurance, to point that out again. You can get in-home care with these policies if you - say if you sustain a broken hip, broken bones and you’re going to be incapacitated even, say, for a year. This insurance will cover you for the care in nursing homes, for the care at home. Disability insurance will not necessarily cover that.

So I hope that answers your question.

Jane Walstedt: What if somebody became disabled fairly early in life? Because our Wi$e Up audience - our Wi$e Up project is geared to young women ages 22 to 35. Would it apply to them if they became permanently disabled at a younger age?
Michael Schulman: No, because they wouldn’t qualify to be covered under this. They wouldn’t get insurance. They wouldn’t pass the underwriting.

Angela Rizzolo: They wouldn’t qualify.

Michael Schulman: Right. That’s the problem. The problem is it’s very tough to get long-term care. The health requirements are more difficult as opposed to something like life or disability. So if you’re disabled early on, a long-term care carrier will not cover you.

Jane Walstedt: But what if you get it before you’re disabled, when you’re young?

Michael Schulman: If you can’t perform the activities of daily living, then you’ll be covered.

Jeff Kyle: Disability insurance would be the priority over long-term care at a younger age.

Michael Schulman: Right, when you’re disabled. So if - I mean, I have a number of clients that are on disability because they work for the police department and they suffered some kind of disability. But they won’t be covered for long-term care because they can do all the activities of daily living. Their disability manifests itself in a different way.

So yes, when you’re earlier on, disability insurance will cover you. As you get older, you’ll typically switch to long-term care.

Angela Rizzolo: Okay. Do we have any questions?

Coordinator: Yes. Our first question is from Debra Driscoll.
Debra Driscoll: Hello. Can you hear me?

Angela Rizzolo: Yes.

Debra Driscoll: Okay. This is probably for all three of our speakers, and I want to thank you for the good information.

I have a - two college-age students. And when they were born, we started savings - a savings bond program and when it became [available] in Oregon, we started the 529 program. And now I’m finding that it’s so confusing to figure out how to cash in on some of these, and I want to know if there’s any book or article that deals with using all of the college-saving vehicles and credits? Because I have Publication 970 from IRS, Tax Benefits for Education. I think I need a doctorate to be able to figure it out. And that’s part one of my question.

And part two is, is it true that the deduction of tuition cost is ending this year, that it won’t be available again?

Thank you.

Michael Schulman: Have you tried going online -- just Googling and searching in general various informational Web sites?

Debra Driscoll: No. I was hoping you guys might have some ideas. But I’ll try that.

Michael Schulman: I mean, all kidding aside, that’s a wonderful resource because there are a lot of very, very good authors out there writing on different aspects of saving for education. I don’t know of one particular site. The government has its own Web site for e-bonds
[http://www.savingsbonds.gov/tdhome.htm], and there’s also a site called www.savingforcollege.com which has a lot of information on the integration of 529 plans and other forms of college assistance.

Debra Driscoll:  Yes, and I guess my one gripe would be, you know, when we start doing all these things, you don’t really - you’re not really told that you can’t cash in on all of them at once. You have to kind of figure out which one you’re going to do because -- I’m at the point where I have to cash in some EE bonds, so I’m wondering if this is the year to do it or if I should take from another fund. It’s really confusing.

Michael Schulman:  It is - one of the things you really should do is sit down and on a piece of paper scratch out the alternatives, you know, what if you do this first, what if you do that second, you know, what are your different options? There’s no one set answer. I wish I could just give you a set answer. Because it’s complicated; you’re right. You’re right. It is complicated.

Jane Walstedt:  Debra, this is Jane Walstedt. I don’t remember - we did a call on taxes back in, I believe it was ’04 [Note: The April 2005 teleconference was titled Wi$e Up About Taxes – Plan Ahead.] It should be on the Wi$e Up Web site. We may have listed some resources during that call, so you might want to check that out.

Debra Driscoll:  Okay. Thank you.

Jane Walstedt:  Uh-huh.

Debra Driscoll:  And how about the tuition cost deduction ending, is that really ending?

Michael Schulman:  I haven’t heard that. I don’t know. Hello?
Jeff Kyle: That’s you, Robin.

Robin Taylor: This is Robin. I have not heard that any - either. Sometimes when the deductions are written into the code, they give them an expiration date.

Debra Driscoll: Right.

Robin Taylor: But then they…

Debra Driscoll: Yeah.

Robin Taylor: …they end up being extended.

Debra Driscoll: Okay. Well I had heard it was sun setting. I think I read that somewhere, but I’m not sure where. So thank you.

[Note: The 2005 tax year is the last year of the tuition and fees deduction, unless Congress acts to extend it. Starting in 2002, taxpayers can deduct up to $3,000 in tuition expenses as an exclusion from income. This means you can deduct the tuition expenses even if you don't itemize deductions on schedule A of your 1040. The deduction increases to $4,000 in 2004 and 2005. The deduction is phased out for taxpayers with adjusted gross incomes of $65,000 to $80,000 (single filers) and $130,000 to $160,000 (married filing jointly).

You cannot use this deduction if you claimed a tax credit for education expenses for the same student in the same year. You can use it in conjunction with tax-free distributions from Coverdell Education Savings Accounts, qualified tuition programs, and education savings]
bonds, provided that different education expenses form the basis for each benefit. You cannot take the deduction and use the Hope Scholarship or Lifetime Learning tax credit for the same student in the same year. If you are claimed as a dependent on someone else’s tax return, you cannot use the tuition deduction. 

Angela Rizzolo: Well thank you. Another question?

Coordinator: Our next question is from Rita Milberg.

Rita Milberg: This is Rita. And my question is to Michael Schulman. When you were giving your speech or your talk, you talked about the alternative minimum tax, and I just want to get further clarification. Did you say that was for only the rich taxpayers?

Michael Schulman: No. I said it was originally instituted for the rich taxpayer.

Originally, when the alternative minimum tax was put in, the idea was if there are a lot of taxpayers out there taking advantage of tax shelters and this and that and a lot of rich folks aren’t paying taxes. So Congress passed the alternative minimum to tax them.

Unfortunately, it has wound its way down now where it’s taxing the regular taxpayer. A lot of the exemptions that were built in to exclude lower-income people have not been indexed for inflation. So a lot of middle-income people, and again middle-income can be what it is depending on where you live, but a lot of taxpayers who are regular wage earners who simply pay taxes and pay high taxes because of their state taxes are finding themselves subject to the AMT when really it was never intended to cover them. But I don’t think you’ll ever still
see much of a change in that. That’s unfortunate. It’s something we have to live with, I think.

Rita Milberg: And it’s also - though - but you did say something about June to August to look at that time. So where…

Michael Schulman: Yeah, I would sit down in the summer and kind of sketch out what a 2006 tax return for you is going to look like, you know. You can even use your 2005, you know, Turbo Tax or something and just sketch it out. And if it looks like you’re going to be in the alternative minimum situation, sit down with a tax professional, sit down with a CPA and say, “What can I do about this now?” It’s July, it’s June, maybe I can change my earnings; maybe I can change the way my taxes are withheld so I’m not subject to the AMT. That was my point about planning in the summer. Once November and December come by for the AMT, you’re usually stuck.

Rita Milberg: Okay. Thank you.

Angela Rizzolo: Next question.

Michael Schulman: You’re welcome.

Coordinator: Our next question is from Aida Kelsaw.

Aida Kelsaw: Can you hear me?

Angela Rizzolo: Yes.

Aida Kelsaw: Yes. I’m asking if there is a -- and this is for anyone -- a toll-free number that you can call for any tax questions that you have within
your state or wherever -- for the updated tax laws, and also I hear recently for this year there’s a change in the earned income tax credit or something like that?

Robin Taylor: From the perspective of the IRS, we do have a 1-800 number where you can call and ask questions.

Aida Kelsaw: Okay.

Robin Taylor: And that is 1-800-829-1040.

Aida Kelsaw: All right.


Aida Kelsaw: Thank you.

Michael Schulman: You’re welcome.

Aida Kelsaw: Is that a - 24 hour or do you know what the hours are?

Robin Taylor: This is a 24-hour…

Aida Kelsaw: Twenty-four hour…

Robin Taylor: …toll-free number.

Aida Kelsaw: Thank you.

Coordinator: And once again, that’s star-1 if you’d like to ask a question.
Angela Rizzolo: Do we have another question?

Coordinator: At this point, we have no further questions.

Angela Rizzolo: Okay. Then I’ll ask my question.

What about people who are married and both have incomes - and they file separately? Are there advantages to that, disadvantages to that? I guess my other question would be, is it legal?

Michael Schulman: In terms of married filing jointly versus married filing separately, typically the advantage is to file jointly. In almost all the tax calculations I do, filing jointly saves money. There are certain exceptions; the big exception is when one spouse has large medical expenses. As you know, to deduct medical expenses the out of pocket expense has to exceed 7-1/2% of what’s called your adjusted gross income.

Angela Rizzolo: Uh-huh.

Michael Schulman: For a husband and wife filing jointly, where each has say, $50,000 of income, that’s $100,000, 7-1/2% is $7,500. If one spouse has $6,000 of medical expenses, by filing separately, say it’s the husband, his 7-1/2% is only about $3,500 and he’ll get a medical expense deduction. So in that case it might pay to file separately.

However, in general filing jointly will save money. But again, this is something you can work out on a pencil and paper. You can make the decision on April 14 and you’re not bound to it from year to year.

Angela Rizzolo: Uh-huh.
Michael Schulman: If you file separate returns, you can always file an amended return to make it a joint return if that turns out to save money, but you cannot go the other way.

Angela Rizzolo: Oh.

Michael Schulman: Once you file a joint return, you cannot amend it to separate returns.

Angela Rizzolo: Okay. Any other questions?

Coordinator: We have a question from Heidi Bethel.

Heidi Bethel: Hello?

Angela Rizzolo: Go ahead, Heidi.

Heidi Bethel: Hi. I have a question for Robin about the earned income tax credit. I’m mainly interested in military person who has - who qualifies under the income level but has a lot of non-taxable income that they get from the military for housing expenses and living expenses. Would they still qualify for this earned income tax credit?

Robin Taylor: Housing…

Heidi Bethel: Yeah. It’s a - housing expenses [sic] that they receive from the military that don’t go into their income on their W-2. But they don’t have any other - no other income.

Robin Taylor: Okay. I would have to look that up…
Heidi Bethel: Okay.

Robin Taylor: I don’t deal too much with the military.

Heidi Bethel: Yes.

Robin Taylor: But I could certainly find that out and get back with Wi$e Up on that.

Heidi Bethel: Okay. Thank you.

Jane Walstedt: Robin, we can - this is Jane Walstedt. We can always add that into the transcript if you look up the answer so that whoever asked the question could find the answer in the transcript afterwards when it’s posted on the Wi$e Up Web site.

[Note: For the purposes of the Earned Income Tax Credit, earned income does not include the Allowance for Housing nor does it include the Allowance for Subsistence.” Please refer to IRS Publication 3 “Armed Forces Tax Guide” for a list of special tax situations impacting active members of the U.S. Armed Forces.]

Robin Taylor: Okay. And that’s the military housing impact on the EITC.

Heidi Bethel: Right. You know, I mean like I said, it doesn’t show up on the W-2, but if they would add that in, you know, it would over the income allowance.

Robin Taylor: I’m sure I’ll have no problem finding that…

Heidi Bethel: Okay. Thank you so much.
Angela Rizzolo: Any other questions?

Coordinator: At this time, we have no further questions.

Angela Rizzolo: I have probably one last question. Is there a limit to the amount that one can defer to a 401(k)? And, if there is, what are the consequences if you go over that limit?

Michael Schulman: Yeah. I don’t know the exact dollar amount. I think this year it’s $14,000. There is a limit, and if you go over, you pay a tax penalty. You don’t want to go over.

Jeff Kyle: That’s correct.

Michael Schulman: Well there is … Typically if it’s an employer 401(k), you can’t go over because the computer is set to make sure you can’t withdraw too much from the account. You know, there’s usually a safeguard built into the system. But yeah, there are limitations and they’re indexed every year. And again, if you go to www.irs.gov and other Web sites, you can get the actual limitation. But if you go over it, then there’s a tax penalty involved.

Angela Rizzolo: Okay.

Michael Schulman: If you have to go in and take the money out of your plan, it’s considered a distribution, and it becomes a nightmare.

Angela Rizzolo: Okay. Thank you.

Michael Schulman: Welcome.
Jeff Kyle: And it’s either $14,000 or $16,000, I agree. And - but there - once you have maxed out your 401(k), you should continue the saving habit into other vehicles.

Michael Schulman: Good point. You’re absolutely right.

Jeff Kyle: So you continue to compound tax-deferred.

Angela Rizzolo: And, just a follow-up question, so there is a shut-off valve, if you will, by the employer?

Michael Schulman: Well, there should be, and I’m just thinking, you know, most of the payroll services that do 401(k)s, they build all this into their system so that you’re not going to get stuck, you know. If you have a small employer who’s trying to administer the 401(k) by his or herself, you can miss the deduction and you can have a problem.

Angela Rizzolo: Uh-huh.

Michael Schulman: But in general again with most employers, that won’t be a problem.

Angela Rizzolo: Okay. Thank you.

Michael Schulman: You’re welcome.

Angela Rizzolo: Are there any other questions?

Cynthia Dawkins: Yes. This is Cynthia in the national office. I have a question. I’d like to know how do you determine the amount of allowances to claim on
your W-2. I’m one of these baby boomers who loves to get a big check at the end of the year. And for some reason it just feels good to me - I don’t know. But how do I know what to claim during the year so I can get most of my money and be in a safe position when it comes to filing my return at the end of the year?

Jeff Kyle: My suggestion is go talk to your insurance and financial services agent and/or your CPA.

Cynthia Dawkins: Okay.

Jeff Kyle: They know exactly what you’re making, exactly where your investments are and your savings. So they know what your financial picture is and they can come up with a dollar amount to - not a dollar amount, they’ll help you figure out how to adjust your W-4 so that you are not giving the government a interest-free loan and - so you’d become one of those people who was earning interest rather than paying it.

Cynthia Dawkins: Oh okay.

Michael Schulman: If I can just take the other side of the coin for one second, and that’s correct, the W-4. If you switch jobs, be very careful because you find when you switch jobs, at the end of the year you owe a lot of taxes. That’s unfortunate the way the tax system is built into the W-4 form.

So if you switched jobs, or if you have more than one job or you and your spouse have multiple jobs, be sure to review your withholdings very carefully or you’ll be in for a not so pleasant surprise come April.
It’s kind of the reverse of making sure you have an overly large refund.

Cynthia Dawkins: Okay. Thanks.

Angela Rizzolo: That’s good advice.

Okay. Well everything has been really wonderful and I want to turn it over now to Sarah Miller from our national…

Gail Patterson: …question.

Angela Rizzolo: One more question? Oh okay. Go ahead, one more question.

Gail Patterson: Okay. This is Gail from national office. Is there some sort of book on all things that you can file for your tax returns? Because sometimes I realize from other people that I run into who said, “Oh, I filed my tax - I filed for this. Just like, Cynthia told me that she, you know, she claims her eyeglasses and, you know, that was last year. I didn’t even know that you could claim your eyeglasses, but it makes sense because it’s medication. But there are other things that I find that you can claim and I didn’t even know that you could claim that on your taxes. So is there like a list of things that you could read that you could actually claim for your taxes to get more money back.

Jeff Kyle: There are many - I’m sorry, go ahead.

Robin Taylor: I was going to suggest that you get the Publication 17. It’s written in layman’s terms and it can - it will spell out a lot of things that you can deduct on the - each category deductions on your return. And you can
get - you can download that also from www.irs.gov or any local IRS office, you can pick one up.

Michael Schulman: And there are many good retail books that list all the different tax deductions; many, many different ones that will give you a list of all the different deductions you can take. Again, if you go on different Web sites, many, many different accountants have Web pages with all kinds of information. And if - after you file you miss a deduction, you can file an amended return. Don’t forget, you have three years.

Angela Rizzolo: Any other questions?

Coordinator: We have a question on the phone line from Maria Peeler.

Angela Rizzolo: Okay. This will be our last question.

Maria Peeler: I have a very quick question. If a relative wants to provide you a gift of about $10,000 or more and you are already making considerable money, is there any way to accept that gift without having to take a hit on the taxes?

Michael Schulman: Yeah. Accept the gift, gifts are non-taxable and then say, thank you.

((Crosstalk))

Maria Peeler: An accepted gift is non-taxable?

Michael Schulman: A gift is not taxable income, so say thank you very much and send me half!
[Note: The gift tax applies to the transfer by gift of any property. You make a gift if you give property (including money), or the use of or income from property, without expecting to receive something of at least equal value in return. If you sell something at less than its full value or if you make an interest-free or reduced interest loan, you may be making a gift.

A gift may be taxable to the giver. The general rule is that any gift is a taxable gift. However, there are many exceptions to this rule. Generally, the following gifts are not taxable gifts:

- Gifts that are not more than the annual exclusion for the calendar year (A separate annual exclusion applies to each person to whom you make a gift. For 2002, 2003, 2004 and 2005, the annual exclusion is $11,000. Therefore, you generally can give up to $11,000 each to any number of people in 2002, 2003, 2004 and 2005, and $12,000 in 2006 and none of the gifts will be taxable. If you are married, both you and your spouse can separately give up to $11,000 to the same person in 2002, 2003, 2004 or 2005 ($12,000 in 2006) without making a taxable gift. If one of you gives more than $11,000/$12,000 to a person in any one of these years, refer to gift splitting in IRS Publication 950, Introduction to Estate and Gift Taxes.).
  - Tuition or medical expenses you pay for someone (the educational and medical exclusions).
  - Gifts to your spouse.
  - Gifts to a political organization for its use.
  - Gifts to qualified charities (a deduction is available for these amounts).

Gifts to individuals are not deductible on the donor’s income tax returns.]