Wi$eUp Teleconference Call  
March 31, 2009  
“Putting the Pieces Together to Weather the Economic Downturn”  
Speaker 3 – Jack Heil, CPA/PFS

Jane Walstedt: And now I’d like to go back to Cindy Henning to introduce our third speaker. Cindy?

Cindy Henning: Thank you. Our final speaker for today’s call is Jack Heil. He’s a Certified Public Accountant and a Personal Financial Specialist. He’s the owner of Jack A. Heil, CPA/CFF/PFS, founded in 1989 in Charlotte, North Carolina. He has over 29 years of accounting, auditing, taxation, litigation, business advisory, and financial advisory service experience and serves a wide range of clients. Prior to opening his own firm, Mr. Heil was the Manager in Charge at the global accounting firm Deloitte.

Jack received his BS in Accounting from the University of Kentucky and is certified by the American Institute of Certified Public Accountants (AICPA) in Financial Forensics. Mr. Heil is a member of the AICPA Litigation Services Section, the Tax Services Section, and Personal Financial Planning Section. Please help me in welcoming Jack Heil.

Jack Heil: Thank you. I am so grateful for the opportunity to speak to all of you, and I hope that I can give you some information today that is helpful to you. Trying to talk about taxes and the changes in 10 minutes is a daunting task. What I’ve tried to do is give you some concepts, and if something resonates with you, kind of remind you that in taxes the answer is always, “It depends.” And you need to be aware of a number of traps, such as income phase-outs or certain items that would sound like a good opportunity for you that goes nowhere.
Overall, what I would like to share with you is - and a broad concept is-- that in the two years prior to 2008 there were over 400 changes to the tax code each year. 2008 saw over 500 changes to the tax code, and I expect that 2009 will bring even more.

In preparing for this talk today, I was just reminded that all the things that we are trying to do to jump start this economy are creating tax opportunities, and there is no shortage of them in every area.

Having said that, I think that one of the things that I try and coach my clients on is a movement towards the simple. I think that you’ll hear a lot of things today when you listen to people speaking and trying to get their hands around what happened, [and] a lot of times, the best and the brightest don’t have a clue, and we’re sitting here scratching our heads saying, “How did we get to that point?”

And so, what I would say to you is that if you’re Generation X or Y, you’re starting out, [and] if you have an opportunity to move to the simple, do that. I think the most important thing that I’ve noticed when I’ve been trying to help clients navigate this most recent economic downturn is who was the coordinator? Who was the coach?

I see a lot of people doing the right things. They have attorneys, they have accountants, they have insurance people, they have financial advisors, but there’s a disconnect between what each one is doing on the whole.

And so I would encourage you that, no matter where you’re at at this juncture, to think in terms of, as you move forward, who will help you coordinate all the vast resources that you’re bringing to bear?
Remember that there’s a remarkable pace of change going on right now, and so to help you to keep pace with that, again, I want to go back to and remind you, it’s okay to make things simple. They do not have to be complicated.

As far as 2008, the one thing that I want to remind you of…and what I’m going to do is I’m going to go through a few areas that I believe are important. I’m going to do them in outline format, and in some areas, I may give you references to a Web site. But I just want you to focus not on getting the answer to what I’m saying, but if the concept makes sense to you, to follow up on it with your accountant, your tax preparer, your financial advisor.

First and foremost, everybody on their 2008 tax return should be aware that in 2007 we were awarded a Stimulus check. That turned into 2008, to make sure that everybody got a Recovery Rebate. And so, depending on your income and your status and the number of children [you have], make sure that you either received your Stimulus check in 2008 or that it has been accounted for on your tax return for 2008. [Editor’s Note: Questions and Answers on Eligibility for the Economic Stimulus Payment can be found on the IRS Web site at www.irs.gov/newsroom/article/0,,id=179181,00.html. Some higher-income taxpayers will not receive a stimulus payment or will receive a reduced payment. If you didn’t file for an Economic Stimulus Payment in 2008 because you weren’t sure you were eligible, you may be able to file for a payment in 2009. See www.irs.gov/newsroom/article/0,,id=177937,00.html on the IRS Web site.]

Second of all, what I’d like to talk to you about is--and I just did one the other day, and it’s really sweet--if you are a first-time home buyer, and you buy a home in 2009, you will get a tax credit of up to $8,000. And that, if you went out and bought a nice starter home, could be a very good kicker.
There is a benefit for those who may have bought a home in 2008. The difference is, if you bought it in 2008, [the maximum credit is $7,500 and] you have to pay back the credit over 15 years. Congress improved that credit for 2008 in 2009 by saying, “No. Here’s up to $8,000 and you don’t have to pay it back.”

The…also the beauty of it is that you could buy the house--which my client did--in 2009 and report it on your 2008 tax return. So the availability of that cash is immediate.

[Editor’s Note: Information about the first-time homebuyer credit can be found on the IRS Web site at www.irs.gov/newsroom/article/0,,id=204671,00.html?portlet=7.]

The other thing that I would like to tell you about and caution you on is that over a number of years when the IRS went lenient and people starting fearing audits less and less, the IRS was quietly regrouping, using technology and becoming very sophisticated in their audit processes.

And what I want you to be aware of is that your recordkeeping for your tax returns should be very good and consistent, because the IRS is now targeting one item on a tax return, asking for information.

And based on that simple quick finding, [the IRS is] making a decision if [about whether] there’s more to go to. So I would just encourage you [that] those days of just saying “Same as last year” are quietly quickly coming to an end.

I’ve been warning my clients of that, and the other day I saw the letter, you know, I finally saw what they were doing. They pick one item in the tax
return, ask for the support, and then make a decision whether to dig deeper based on that.

For my generation Xers and Ys, you may be dealing with having children right now. I wanted you to be aware of [the fact that] there are some really significant adoption benefits. There is a credit to reimburse you. Generally, this [adoption] is brutally expensive, but there is a significant credit, up to approximately $11,000, when you finalize your [adoption].

There are also a number of rules regarding if it’s a foreign adoption or what not.

[Editor’s Note: See Tax Topic 607 – Adoption Credit – at www.irs.gov/taxtopics/tc607.html.]

The other thing that I’ve noticed this year--and it’s for the first time and it’s interesting to me--but my generation Xers and Ys there is--if they…both spouses are working or if a single mom is working, a single dad--there are opportunities to take a dependent care benefit, to get a credit if you are providing, [that is] if you are incurring, child care expenses [for your dependent who is under age 13 or expenses for having someone care for your spouse or dependent who is not able to care for himself or herself].

And there seems to be a lot of confusion. The recordkeeping is fairly strict. You must know [provide] the name, address, phone number, the Social Security or TIN [taxpayer identification] number of each person that you provide day care for, in order to get the day care [child and dependent care] credit or to offset the amounts that you may take through a day care program [i.e. spend for dependent care].
Also, if you’re fortunate out there and you have children with unearned investment income exceeding $1,800, that needs to be reported at your [tax] rate, rather than your child’s. [Editor’s Note: Part of that income may be taxed at the parent’s tax rate instead of the child’s tax rate. See IRS Publication 929, Tax Rules for Children and Dependents, at www.irs.gov/publications/p929/index.html.] Congress is trying to take away the income shifting to your children.

I also wanted to briefly mention that, if you…if your income falls under a certain level, then you may qualify for the Earned Income Tax Credit [EITC]. This is an area of great abuse that has tied up the IRS for years, and the IRS is fighting back.

I wanted to just give you these requirements here [for the EITC]. If you have a valid Social Security number. If you have income--earned income--either from a job or self-employment. You can’t be married filing separately. You must be a U.S. citizen [or resident alien all year, or a nonresident alien married to a U.S. citizen or resident alien and filing a joint return]. You cannot be a qualifying child of another person, and the term qualifying child, I could spend days in mind-numbing discussion with you about what a qualifying child is.

This is an area where the IRS, in attempting to define qualifying child, has made it almost impossible to determine. So hopefully, you’ll keep that simple.

Let me give you some income thresholds here. You may qualify for the Earned Income Credit if your [earned] income [and adjusted gross income] is
under $38,646 and you have two or more qualifying children, it is under $33,995 with one qualifying child and it is under $12,880 - almost $13,000-- with no qualifying children. You cannot have investment income above $2,950.

So that…I rarely see that in my practice, but that can become quite helpful, and especially in a year in which maybe you’ve had in the past high income, but now you’re going through a tough stretch. The Earned Income [Tax] Credit might show up on your tax returns [tax return forms], so be aware of that opportunity.

There is a great…the IRS Web site is very helpful on this. If you go to the individual tabs, there’ll be a section on Earned Income [Tax] Credit, and it will actually walk you through, ask you the questions, [to determine] if you qualify [Start at www.irs.gov/individuals/article/0,,id=96406,00.html]. The IRS Website is www.irs.gov.

I wanted to talk to you about a…some of you all probably heard. Those of you that are working are maybe actually getting notices now that talk about “Hey, do you want to lower your withholding due to the new credit regarding Make Work Pay?” [See The Making Work Pay Tax Credit at http://www.irs.gov/newsroom/article/0,,id=204447,00.html.]

Let me give you a Web site where you can make a decision if you want to do that or not. I’ve made the decision to advise my clients against lowering their withholding, because there could be some unintended traps in terms of you owing at the end of the year, based on changing to these tables.

So, for the most part, I’m not going to let my clients do it, but you can go to this Web site: www.paycheckcity.com. That is www.paycheckcity.com. It
shows right up on the front there. It’s an easy…you put in your pay information, your payroll frequency, and boom, it’ll give you an analysis.

I wanted to follow up real quickly on Stephanie, the unemployment benefits that she was mentioning. In 2009, the first $2,400 will not be taxable. Normally, unemployment benefits are taxable. This is a big break.

Those of you that might be dealing with education, the [Tax] Code is getting so education-friendly. There are opportunities with Savings Bonds, Series EE. There are Hope and Lifetime [Learning] credits. And for those of you that we might be reaching out to, the area where you were part of the Midwestern disaster for 2008, the Hope credit, the Lifetime [Learning] Credit, and I believe the tuition deduction have been doubled. [See the section on “Tuition and Fees” in IRS Publication 970—Tax Benefits for Education--at www.irs.gov/pub/irs-pdf/p970.pdf.] So it’s a great benefit if you went to school in a Midwestern disaster area. [See Tax Relief in Disaster Situations on the IRS Web site at www.irs.gov/newsroom/article/0,,id=108362,00.html.]

Also, there are deductions if you’re paying student loan interest [See the section on “Student Loan Interest Deduction” in IRS Publication 970—Tax Benefits for Education—at www.irs.gov/pub/irs-pdf/p970.pdf.]. The…one of the things that I mentioned about all these education benefits is that there are income phase-outs that you need to be aware of.

Also, it’s never too early to start saving. And if your income is under $30,000, [you’re] single, and I believe under 53 - don’t hold me to these numbers, I’m guessing--but you also may be due a credit. [Editor’s Note: The Saver’s Credit helps low- and moderate-income workers save for retirement. It helps offset part of the first $2,000 workers voluntarily contribute to Individual Retirement Arrangements (IRAs) and to 401(k) plans and similar workplace retirement programs. The Saver’s Credit may be
claimed by married couples filing jointly with incomes up to $53,000 in 2008 or $55,500 in 2009; heads of household with incomes up to $39,750 in 2008 or $41,625 in 2009; and married individuals filing separately and **singles with incomes up to $26,500 in 2008 or $27,750 in 2009**. Eligible taxpayers must be at least 18 years of age. See “Plan Now to Get Full Benefit of Saver’s Credit; Tax Break Helps Low- and Moderate-Income Workers Save for Retirement” on the IRS Web site at [www.irs.gov/newsroom/article/0,,id=200742,00.html.]

So if you can manage to take or participate either in an IRA or a 401(k) of your company, even if it’s a little bit, the Congress is going to give you a credit for saving, to encourage you to do that more.

Also, here’s a few little miscellaneous things. Jane, am I doing okay on time?

**Jane Walstedt:** We’ve got five of three. I’m going to let the time run over for questions, since we haven’t even started with the questions yet. So if you can kind of wrap it up, that would be great.

**Jack Heil:** Okay. If you’re a volunteer fireman or emergency medical responder, there’s a deduction for you. [See “Exclusion of Income for Volunteer Firefighters and Emergency Medical Responders” on the IRS Web site at [www.irs.gov/formspubs/article/0,,id=181049,00.html.]

If you can’t itemize, but you own property and have real estate taxes, there’s a deduction for you. I’ve yet to see that work on one of my clients yet. [Editor’s Note: For Tax Years 2008 and 2009, there’s an additional **standard** deduction for those who don’t qualify to itemize their tax deductions, but who do pay state or local real estate taxes. See “Additional Standard Deduction for Real Estate Taxes” on the IRS Web site at [www.irs.gov/newsroom/article/0,,id=205172,00.html.]}
Also, I just noticed that there is going to be a new provision that if you buy a [qualified] new car in 2009, the state sales and excise taxes that you pay on [up to $49,500 of] the purchase [price] of that vehicle will be tax deductible [regardless of whether you as a taxpayer itemize deductions on your return. See “Special Tax Break Available for New Car Purchases This Year” on the IRS Web site at www.irs.gov/newsroom/article/0,,id=205863,00.html?portlet=7.]

I wanted to tell you if you’re struggling and you owe, you’ll probably never find the IRS more taxpayer-friendly, compassionate, in that area. Do not try and run from that. They will work with you.

And then…I will wrap up, Jane. I hope that wasn’t too much too quick.

Jane Walstedt: Well, we…you know, that’s why we have a transcript and we have a recording, so that people can go back and revisit what was said.

So I appreciate very much the hints or the ideas that you threw out, and I am now going to turn to our operator, Sarah to give instructions on how to ask a question.