Jane Walstedt: And now I would like to turn back to Kelly Jenkins-Pultz to introduce our third speaker. Kelly...

Kelly Jenkins-Pultz: Thanks, Jane. David George is a Certified Public Accountant and Personal Financial Specialist with 35 years of experience in accounting and financial management. He is currently a partner at Wealth Management Group in Irvine, California. And that is a fee only wealth management company that assists individuals with financial planning and investment advice.

In addition to his expertise counseling individuals, Mr. George has extensive leadership service within his profession. He currently is the Chairman of the Member Retirement Plan Committee for the American Institute of Certified Public Accountants, and he has served on the Strategic Planning Committee of the American Institute of CPAs.

He led the California Society of CPAs as Chairman from 2000 to 2001 while also serving as the Orange County Long Beach, California Chapter President. His other community service includes Los Angeles County Bar Audit and Finance Committee and the Placentia-Yorba Linda Educational Foundation.


We are very pleased Mr. George can speak with us today.
David George: Well thank you, Kelly. I appreciate the opportunity. It is ironic that today on Cyber Monday we are talking about credit card transactions and future planning issues and now taxes, which are so important to everyone’s financial condition.

I could probably take the rest of the day today, as tax law changes arise in a number of different ways through tax court cases, Internal Revenue Service rulings, and Congressional law changes signed by the President.

So I am going to try to hit upon several very diverse and potentially important tax items that might apply to you and/or those who you know. There has been a lot of activity in this arena in the last year.

Like Erika, I cannot emphasize enough the importance of a financial plan. So getting into this in my limited time, the main focus of my commentary will be along the lines of individual changes, but we will also talk about a couple of other matters as well.

The most recent tax bill included expansion of the credit that there has been a lot of news about--the home buyer credit that Erika mentioned. The importance of this particular credit is that there is a time limitation, that the credit has been extended to apply to a purchase of a principal residence through April 30 of 2010, with a maximum credit of $8000 for a joint return.

The timing is important in that you either must close on the residence by April 30 or enter into a binding contract on or before April 30, but which must close before July 1.

So like tax laws, there are paragraphs and multiple paragraphs of trying to understand that. But in simple terms, April 30 is a critical date. One of the
lesser known aspects of this credit is that it is available to long-time homeowners, homeowners that have had the same residence for five out of the last eight years. If they are buying replacement property, they too will be entitled to a credit amount in…up until April 30 of 2010, but it will be a reduced credit amount of $6500 for joint returns.

Both of the credits are sub…or the credits for either first time homeowners or long-time homeowners will be phased out based upon income levels.

Generally intra-family transfers or transfers between family members are disallowed. There is an exception to this April 30, 2010, date. Members of the U.S. Armed Forces or Foreign Service and the Intelligence community are granted additional time to claim the credit, generally for one year if they are serving on qualified extended duty outside of the United States.

In addition, the IRS provided guidance earlier this year for the application of the credit to two or more owners of a home who are unmarried. Basically the guidance is that only the total amount of the credit is permitted among the owners of the property.

So in other words, an $8000 credit can be allocated between two or more unmarried taxpayers, but the allocation rules or the guidance offered by the Internal Revenue Service says that a reasonable method must be used to allocate that credit.

It could, for example, be based upon contributions of the parties to the purchase price, their ownership interest, etcetera.

A couple - a few things--that would, could be important in the coming year would be the reporting on your 2009 tax return of unemployment compensation. Yes, unemployment compensation is reportable on your tax
return every year. The first $2400 of unemployment compensation, however, is excludable from gross income in 2009.

There was an expansion of—[to] those of you who are either beneficiaries of or to people or individuals [you know] who are beneficiaries of--qualified tuition programs or 529 plans. Those individuals must or are able to use disbursements for qualified computer equipment and Internet access costs paid or incurred in 2009 and 2010.

For new car purchases, if that is in your near future, individuals regardless of whether they itemize deductions [or not], can deduct state and local sales and excise taxes paid on the purchase of a new automobile up to $49,500, if purchased by December 31 of this year. The deduction is phased out dependent upon income.

Retired government workers--for those of you who know retired government workers--whose work was not covered by Social Security can claim a refundable $250 tax credit in 2009.

I bring up the issue of failure to file. I can…I bring this up to make a point. I have seen in my career that in times of economic stress and distress, sometimes people delay filing a tax return. And sometimes they are delinquent.

I would encourage you to - and I can’t stress [enough] the importance of--filing a tax return on a timely basis, even if you cannot pay the taxes that you might owe. Because first of all, by timely filing a return, but not paying the taxes, you are going to avoid a very expensive “failure to file” penalty, even though you cannot pay the taxes.
If you pay the taxes later, you will be subject to interest charges and late payment penalties, but that is much less severe than a “failure to file” penalty.

In addition, for the most egregious cases, the IRS or the tax court has ruled this past year that an individual who failed to file a tax return is not enti…and the procedure is that the IRS demands a filing of a return and if the taxpayer refuses to provide one, the IRS can file one for you.

Well, the tax court has ruled that the IRS…the taxpayer was not entitled to claim itemized deductions.

Another area that has had some interest in the economic and financial planning community is life insurance. Sometimes people are out there looking to sell their life insurance policies and - because there are buyers of life insurance policies. [Editor’s Note: “Life settlement” is the term used for this. The Senate Special Committee on Aging held a hearing on this practice back in April 2009. Two articles that discuss that hearing are “Senators Decry Flipping Of Life Insurance Policies,” The Washington Post, 4/30/09, and “Buying of Life Insurance from Senior Citizens to Bundle as Investments Gets Scrutiny, Senior Journal, 4/30/09. The New York State Insurance Department has questions and answers on life settlements at www.ins.state.ny.us/que_top10/que_life_set.htm.]

The IRS had several rulings in the past year that you must understand--the tax consequences of either being a seller or being a buyer. If a seller, it would be possible that certain receipt of the proceeds of a sale of a policy will be subject to income taxation, usu…oftentimes could represent ordinary income or, in certain cases, capital gains income.

As an investor, the death benefits paid upon a life insurance policy again could be subject to tax, not exempt.
While Liz and Erika spoke about credit cards, and while I do not recommend the use of credit cards, there are some people who pay taxes by credit card. The Internal Revenue Service ruled earlier this year that convenience fees paid by taxpayers when charging [using] their credit or debit cards for tax payments are deductible, but only as a miscellaneous itemized deduction. So I just bring that out as a potential tax deduction, but certainly not recommended.

One of the things that you are going to be hearing a lot about in 2010 will be the notion of converting an Individual Retirement Account or IRA to a Roth IRA. The law has been expanded to apply in 2010 that everyone and anyone who owns an IRA can convert [to a] Roth.

The benefit of considering to do so is that the withdrawals out of a Roth are not subject to income tax. But when you make a conversion of an IRA to a Roth IRA, you are subject to tax.

The law allows you to defer paying the tax to two future years, but the make…just the bottom line here, and the recommendation is that a careful analysis must be done to determine whether it is in your best interest to make such a conversion, given the fact there are many moving parts about taxation, about potential higher rates in the future, in 2011 and beyond. And so even though you are going to hear a lot about it, it may not be in your best interest.

There has been a change in the rules for tuition programs or qualified tuition programs, such as 529 plans. You are enabled in 2009 to make two investment strategy changes in 2009, but it is a plan scheduled to revert to only one change beginning in 2010. So if you made one earlier this year, you have until December 31st of this year to make a second change.
Finally, in the small business area, for those of you who are entrepreneurs and own small businesses, there has been a significant law change that was signed into law earlier this month on net operating losses.

If you had a loss from - arising out of--your business in either 2008 or expect one in 2009, you may be entitled to carry back those losses as many as five years, with certain limitations, which would mean an immediate refund of past taxes that you may have paid on income in those earlier years as far back as 2003 or 2004.

There are…there were two components of this net operating loss carry forward or carry back, but the point is that if you had a loss or are expecting a loss, you may be able to get significant refunds from prior years’ taxes.

In closing, year end tax planning is not only about what is happening in Congress or at the IRS. Addressing changing circumstances in your life is also a big part of planning. What you had planned at the beginning of 2009 may not be what you are faced with now.

Changes in your employment status, your family situation, your investments or retirement plans raise new tax and planning issues. Keep in mind that prepaying certain expenses, such as real estate taxes or mortgage interest does not necessarily translate into larger deductions or even tax savings in 2009.

But paying a college tuition bill in late December rather than January can impact when you maxim...can impact you whether you maximize the benefit of the new off...American Opportunity [Tax] Credit for both 2009 and 2010. The new Opportunity Credit is basically a replacement or expansion of the Hope Credit previously available to qualified students and individuals.

[Editor’s Note: IRS Questions and Answers about the American Opportunity
Tax Credit can be found at

So, in short, in 2009, a year of tumultuous change for the economy and tax laws, means now more than ever that planning should be high on your list in the first couple of weeks in December. So thank you.

Jane Walstedt: Thank you, David. I am so glad we asked you to be part of this call as [there are] a lot of things to think about with regard to tax planning. And I think people do not often fact…do not always factor that into their financial planning.