

ANSPACH FINANCIAL GROUP

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SUMMER NEWSLETTER

JUNE, 2008

Tax Deductions May Help Defray Travel Costs

Combining a business trip with a vacation is quite common, as is conducting business while on vacation. With the escalation in travel costs spurred by record fuel prices, we can expect to see more people searching for ways to economize on both business and personal travel. For some, combining business with pleasure may afford the opportunity to offset a bit of the sting to the pocketbook with a tax deduction for a portion of the expense.

Yes, combining personal and business travel can be acceptable for tax purposes, but the rules are complex and can be difficult to apply. For instance, the rules for domestic travel and foreign travel are very different. For travel within the United States, the primary purpose of the trip is the most important factor. If the primary purpose of the trip is business, the travel costs to and from the destination can be fully deductible. The travel costs are not deductible, however, if the primary purpose of the trip is for pleasure or other personal reasons. Whatever the principal purpose of the trip, expenses such as lodging and meals may be deductible on the days spent conducting business.

Foreign travel usually requires an allocation of expenses that differ based on the length of the trip and other factors such as the number of days during which business is conducted. When a spouse or other family members accompany you, the allocation becomes even more challenging.

The most important thing you can do is to keep detailed receipts of all expenditures and record the business activities in a daily calendar. Meals are subject to the 50% rule, so it's necessary to break these out separately when included on the hotel bill. With this information we will be able to determine the amount of your trip expenditures that qualify as a tax deduction when we prepare your tax returns. You also may want to call us before making your travel plans so we can advise you on structuring the trip to best take advantage of any favorable tax treatments that may be available to you.

Whether your travels this summer are for business or pleasure, or both, we wish you happy trails and friendly skies and a safe journey home.

Equity Line Freezes

We are receiving the first reports from our clients who have received notification from their lender that their home equity lines have been frozen and that no additional funds are currently available to them. These freezes are taking place in areas where real estate values have dropped substantially. The lenders utilize information such as comparable sales in that area to determine which loans appear to be in excess of the

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Special points of interest:

- Lenders are freezing home equity lines of credit without warning to homeowners.
- The "kiddie tax" will impact more households this year and make tax filing for dependent students more complex.
- Our firm will begin offering bookkeeping services to our tax clients.

Charitable Deduction for Auction Items

You've just come home from a fund-raiser for your child's school at which you wrote a check for several auction items that you "won". You know that you don't get to deduct the full amount of the check you wrote to the charity, but how do you determine the qualifying amount for a charitable income tax deduction?

The explanation is much easier than the actual determination of the deduction. The deductible portion is the difference between what you paid and the fair market value (FMV) of the goods or services received. FMV is defined as what a willing buyer would pay a willing seller under normal circumstances. Most auction items are listed with a FMV, and the charity is supposed to provide you with a written statement if it receives a payment from you greater than \$75 that is partly for goods or services. But who gets to decide what is FMV? What if it's an aspiring artist who has an inflated idea of what his renderings should fetch at a gallery that has yet to accept any of his artwork? Unfortunately, the burden of proof of FMV is on you if the IRS happens to be the one you are trying to convince. Obviously the FMV has to be reasonable, and the reality is that you don't get to take a tax deduction for a purchased item unless you paid more than it's worth.

It can be even more confusing to determine the contribution amount for the donor of the auction item. Their deduction is limited to the item's cost or FMV, whichever is lower. Cost is generally what you pay for an item, but there are exceptions for property received by gift or inheritance or that is used in a trade or business. If the donor made the item (or created, as in a piece of artwork), the contribution deduction is generally limited to the cost of the materials. There is no deduction for the value of the donor's time or services.

What about your donation of a week's stay at your vacation property in Tahoe? It's a common misconception that you are entitled to a deduction equal to the value of a week's rental of the property. In fact, you don't receive a deduction for this kind of contribution because it's considered a donation of a partial interest. The only thing you would be able to deduct would be any additional out-of-pocket costs you incurred solely because of the non-paying guests' use of the property.

Are you beginning to feel a bit less charitable than before you started reading this article? That isn't our intent; we just want you to have realistic expectations about the tax benefit you are going to receive when you contribute anything to a charitable organization other than cash or a check. We also have resources on our Website that can help you determine the value of items that you may want to donate to your child's next fund-raising auction or just load up in the car and carry down to the local *Goodwill* drop-off location.

If you think you've now got this down, see if you can answer this question: In June, 2007 Lydia paid \$100 for a bottle of wine at a charitable auction which had a FMV of \$50. Lydia doesn't drink wine, so she donated it back to the same charity for their June, 2008 auction. Assuming that the wine didn't decrease in value over this period, what is Hilda's tax deduction for these two charitable activities? The answer will appear in our Fall newsletter.

Equity Line Freezes

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home's current value. This can have disastrous consequences for someone who has made commitments for the use of the funds that are now inaccessible. Fortunately, some mortgage brokers are notifying their clients of this potential problem, giving them the opportunity to withdraw the additional available funds prior to the time that the freeze is put into place. Placing those funds into a money market or similar account can insure against the potential loss of access to the funds in the event of an equity line freeze.

Lenders are also providing opportunities for appeals, especially for those planning to use their equity lines to fund home improvements that will increase the home's value. If you believe the lender has understated your home's value, they will consider an appraisal that proves a higher value. The catch is that you have to pay for the appraisal.

Since accessing equity line funds has been as easy as writing a check, many homeowners pay down their accounts whenever feasible to avoid unnecessary interest expenses and then draw on the equity line of credit when the need arises. Rethinking this strategy and drawing out funds "just in case" of a freeze may be a way to protect access to those funds.

Kiddie Tax Redoux

As we mentioned in prior newsletters, the “kiddie tax” keeps getting expanded to a wider age group. This year it will include dependent children age 18, as well as dependent children under the age of 24 who are full-time students. This means that many children who grew out of the “kiddie tax” age bracket when they reached age 14, have now grown back into it.

Remember that the “kiddie tax” is so named because a dependent child’s unearned income above a certain threshold (\$1,800 in 2008) is taxed at the parents’ top marginal tax rate rather than at a lower bracket where they may fall. Unearned income includes investment income such as interest and dividends from stocks and mutual funds. The child’s earnings from part-time or full-time employment are not subject to this higher rate, but rather are taxed at the child’s normal rate. It was created to prevent taxpayers with high income from setting up accounts in the names of their kids to reduce their overall taxes. Congress likely made these recent age extensions to derail income-shifting strategies of the wealthy who had transferred appreciated securities to children or grandchildren in anticipation of the lower capital gains tax rates available to them in 2008, 2009, and 2010.

What should you do? The strategies for children with investment income in excess of the allowable threshold have been the same for many years. Deferring income by choosing investments such as municipal bonds has been a traditional method to avoid the taxation of a child’s income at the parents’ marginal tax rate. Postponement of recognizing gains in custodial accounts to avoid the “kiddie tax” is another strategy that has been utilized, but this may adversely impact financial aid. Money invested in College Savings Plans (Section 529 Plans) avoids this additional tax. Be careful about transferring custodial accounts to 529 Plans since the capital gains on the sale of appreciated securities in the custodial account may be subject to “kiddie tax”. This is because contributions to 529 Plans must be in cash.

These higher age limits do not force a child into the “kiddie tax” if their earned income exceeds half of their annual support. In this situation, the child no longer qualifies as a dependent, and all their income is reported on their tax return and taxed at their normal rate.

Students who work and have had taxes withheld are very quick to utilize free tax-filing services on the Internet to secure a tax refund as soon as they receive their W-2 in the mail. We end up having to amend many of these returns as well as the parents’ returns because the child was not eligible for the tax filing status they chose. With the extension of the “kiddie tax” we anticipate having to amend many more returns for students who don’t realize that they are subject to a higher tax rate, which can’t be determined until after the parents’ tax return has been completed.

Our Firm Adds Staff and Services

Welcome Cindi Jones

Anspach Financial Group is proud to officially announce the addition of Cindi Jones to our staff. Cindi began working with us in February, and many of you met her or spoke with her on the telephone during this recent tax season. She had previously worked in the mortgage industry and has already proven herself to be a valuable addition to our firm.

Bookkeeping Services

With the addition of full-time staff we are now able to offer bookkeeping services to our clients who would benefit from seamless bookkeeping and tax services. If you think you may be interested in this service, call our office and schedule a time to meet with us and discuss your bookkeeping needs.

Electronic Delivery

We are now able to send this newsletter to you electronically. Please email Cindi Jones at info@anspachfinancialgroup.com with your preferred email address to sign up for this no cost service.

By the end of this year we will be able to send tax organizers and tax returns electronically as well. We will provide additional information in subsequent newsletters and in updates on our Website at www.anspachfinancialgroup.com.

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At Anspach Financial Group, we are committed to providing valuable and personalized services to each of our clients. We strive to solve complex tax and related issues by combining technical expertise with creative planning and problem solving. The experience, professional credentials and personal attention of our partners provide our clients with superior services at reasonable cost.

Calendar

Tax Due Dates

June 16	Second quarter estimated tax payments due
July 31	Due date for second quarter payroll tax returns Due date for second quarter annual sales tax returns
September 15	Final filing due date for calendar year corporation returns on extension Third quarter estimated tax payments due
October 15	Final filing due date for individual, partnership and fiduciary returns on extension

Anspach Financial Group Calendar *

August 31	Deadline for providing all required information for the preparation of 2007 calendar year corporation returns to guarantee completion by September 15, the extended due date
September 30	Deadline for providing all required information for the preparation of 2007 individual, partnership and fiduciary returns to guarantee completion by October 15, the extended due date

*These deadlines are based on the large number of tax returns that we have on extension. It is important, not only that we have sufficient time to prepare accurate returns, but also that you have time to review the completed returns before the final filing date. Please make arrangements to get your 2007 tax information to us as soon as you possibly can.