

Tax Tips

Keeping you informed...

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Take Advantage of Tax Savings in a Down Market

Know when you have a deductible loss

Just because the stock market lost money, doesn't mean you have a deductible loss. As long as you hold on to an investment, you only have a loss on paper. It's only when you actually sell the investment that you have a transaction to report on your tax return.

Fortunately, the tax law allows you to offset your capital gains by your capital losses. You can avoid or minimize taxable gain by selling two investments, one at a gain and the other at a loss.

However, an investment sold at a loss is not gone forever. If you believe it was a good long-term investment, you can buy it back. This strategy works very well if the price of the investment either stays the same or goes down even further. For example, let's say you sold 100 shares of ACME stock, which you purchased for \$3,000, and receive \$2,500 in cash proceeds from the sale. You can use the \$500 capital loss to offset capital gains or other income. Now, let's assume you want to buy back the ACME stock because it's a good long-term investment. If the price of 100 shares of ACME is \$2,500 or less, you can use the proceeds from the first sale to buy the stock back without having to provide any additional money. Caution: You must wait at least 31 days after the sale to repurchase the stock, otherwise the loss is not allowed.

If you are an IRA owner over age 59½, you can take advantage of the down market by taking distributions (either voluntary or required) of actual investments from your IRA, instead of the cash. You'll also escape the additional ten-percent premature distribution penalty. If there are investments within your IRA account that you want to hold long-term, but the value is currently down, you may want to consider having them distributed to you. Be aware that this is a taxable event



and the fair market value of the investment must be reported on your tax return. However, any appreciation earned after the distribution will not be taxable until you sell the investment. This provides several advantages:

- If you sell the investment, it will be taxed at the lower capital gains rate, which may be less than the rate for your IRA distribution;
- It reduces your IRA account so your required minimum distributions may be smaller in future years; and
- You can gift that investment to a person or a charity at a later date.

As always, consult your investment and tax advisor prior to taking any actions.

Refinancing Your Home Mortgage

What's deductible and what's not?

While there are benefits to refinancing your home mortgage, most refinancing costs are not deductible on your tax return. There is one exception, however. The amount you pay for points, or prepaid interest, may be amortized over the life of your new loan. Although this might not amount to much when you spread it out over 15, 20, or 30 years, don't file away your closing papers quite yet.

When the note is paid off, you may deduct the remaining interest attributed to the points you paid the first time you refinanced. However, according to the IRS, refinancing must be done at a different lender. In addition, the closing costs may reduce the taxable gain when you sell your home.

Do You Have Debt Forgiveness?

You may not have to include it in income

When you are liable for a loan but can't repay it, some lenders will forgive the debt. What many borrowers don't realize is that this cancellation of debt results in taxable income in the year of forgiveness. The lender usually will issue a Form 1099-C to report the cancelled debt. If you receive one, don't ignore it. Be sure to give it to your tax preparer and discuss the circumstances surrounding the loan.

If you have cancelled debt but are bankrupt or insolvent, you may exclude the income on your tax return. To prove insolvency, your liabilities must exceed the fair market value of your assets immediately before the debt discharge. The amount of forgiven debt that can be excluded cannot be more than the amount your liabilities exceed the value of your assets.

In light of the current mortgage crisis, Congress has provided more relief for borrowers who couldn't pay their mortgages. If you have forgiveness of debt on the mortgage of your qualified principal residence (usually due to foreclosure), you don't have to recognize cancelled debt. The maximum amount of debt forgiveness eligible for exclusion is \$2 million. This relief is available for tax years 2007 through 2009.

Summer Day Care

What expenses qualify for the childcare credit?

Parents who have children under the age of 13 are allowed a tax credit for childcare expenses paid so they can work. In the summer, many parents send their children to a structured day camp or an overnight camp for a week or two at a time. In most cases, the cost of sending your child to a camp of this nature does not qualify as a childcare expense, even if one of the reasons for sending the child is for care. In order for the cost of a day camp to qualify for a tax credit, the organization that conducts the camp must adhere to the same rules as a dependent care center.

If you need childcare in the summer months and hire someone to come and watch your children in your home, the amount you pay for care qualifies for the credit. However, if you wish to take the credit, you must get the caregiver's social security number and address. Plus, you must issue that person a W-2 if you pay him or her more than \$1,600.



