

The Financial Planning Newsletter

Veterans' Benefits Get Big Boost in 2009: The Post- 9/11 Veterans Educational Assistance Act, which was signed in August 2008, will position veterans starting in 2009 for one of the biggest upgrades in post-military education benefits since the original GI Bill of 1944.

The new bill allows veterans to receive up to the full cost of tuition and fees at the most expensive public school in their state. Some vets can get a free education if they qualify for the full amount. The new benefits apply to activated members of the National Guard and the Reserves, as well. Best of all, the new program will allow returning servicemen and women with qualifying service to transfer their benefits to spouses or children if they already have a degree.

To qualify for the new benefits, veterans will need to have served at least three months of active duty since 9/11, after which benefits are pro-rated according to months served, up to 36. For veterans who have served at least three years of active duty, they'll qualify for 36 months worth of in-state tuition and fees, or four academic years. For those who serve 24 months, they'll qualify for 80 percent of in-state tuition, plus 80 percent of the costs of books and housing. For those who leave the military due to a service-related disability and served at least 30 days of continuous active duty, they qualify for the maximum benefit. The program will cover in-state tuition and fees and give veterans a housing stipend pegged to area housing prices. It will also pay \$1,000 a year toward books and up to \$1,200 toward tutoring expenses as long as it's for an in-state school. Out-of-state students will need to make up the difference between in-state and out-of-state costs.

There's also the Yellow Ribbon GI Education Enhancement Program, where the federal government matches institutional grants offered by participating schools to vets who qualify for the maximum benefit.

Further, military service counts toward vesting for all civilian retirement plans. And thanks to the Heroes Earned Retirement Opportunities (HERO) Act enacted in 2006, military members and their families can actually put more money into their traditional or Roth IRA accounts. The act allows tax-free combat pay to be considered as earned income for determining the contribution amount for traditional and Roth IRAs. Before, combat pay wasn't earned income so it was disallowed when calculating IRA contribution amounts.

Activated and deployed military personnel receive special tax breaks at the federal and sometimes state level. Military income earned by soldiers in combat zones is tax-free and they don't have to file taxes until 180 days after their return. Activated military personnel are entitled to an extension on the period of time allowed for a tax break on the profits from the sale of a home. They're also



able to take tax breaks on childcare assistance. Nontaxable combat pay can also be considered for the Earned Income Credit.

The Service Members Civil Relief Act of 2003 provides a variety of financial protections for active duty personnel. The act provides stays on civil litigation including bankruptcy and divorce. Also, the act prevents wage attachments while military personnel are away. Coverage requires active duty confirmation from a commanding officer but expires 90 days after that status has been terminated. The law also makes it tougher, but not impossible, for landlords to evict military families for nonpayment of rent.

As Medical Expenses Rise, Don't Miss Key Deductions: There are plenty of horror stories about uncovered medical expenses these days, and many of these stories belong to people who actually have health insurance. Anytime you or a family member is facing a health crisis or an unusual medical-related expense, it's best to check to see if you might get a break from Uncle Sam.

Our friends in Congress and at the Internal Revenue Service let us deduct medical costs, so long as they are more than 7.5 percent of adjusted gross income (AGI). That means if your AGI is \$50,000, you can deduct only those unreimbursed expenses that exceed \$3,750.

Getting there can require some planning so it's important to gather up every dime of unreimbursed medical, dental and vision care expenses and review them carefully.

Here are a few items people often miss at the top of their Schedule A:

Medically related travel: The IRS evaluates the standard cents-per-mile allowance each year for travel to and from medical treatments. Between Jan. 1-June 30, that rate was 19 cents a mile. Between July 1 and Dec. 31, the rate will rocket to 27 cents a mile. With the recent drop in gasoline prices, expect a reduction in this rate in 2009.

Insurance payments from already taxed income: This includes the cost of long-term care insurance, up to certain limits based on your age.

Uninsured medical treatments: This includes what you spend for eyeglasses, contact lenses, false teeth, hearing aids or prosthetics.

Rehab treatment: What you pay for alcohol or drug-abuse treatments might be deductible.

Weight-loss to smoking cessation: If a doctor prescribes it, you may be able to deduct it.

Laser vision correction surgery: May be an allowable expense to deduct on your current taxes.

Doctor-recommended equipment and related expenses: If your doctor says you need a humidifier installed on your heating and air conditioning system to help your breathing problems, you might be able to deduct all or part of the cost for the device as well as the additional energy costs to run it. If you make this or other similar home improvements, or bring in special equipment that's considered medically necessary for you, your spouse or your dependents, you may be able to deduct the cost. Because these improvements are not expected to add to the market value of the home, they are considered fully deductible. If the improvement increases the value of your home, only the amount of the expense that exceeds the increase in the property value of your home is deductible.

Some medical education costs: If you, your spouse or child have a chronic medical condition and you attend a conference to learn more about it, you can count admission and transportation expenses as a deduction, but probably not meals and lodging.

If you're self-employed: You may deduct, as an adjustment to gross income, the full cost paid for medical insurance for you, your spouse and your dependents.

Lodging for out-of-town treatment: When accompanying a minor dependent to out-of-town medical treatments, hotel bills may be partially deductible.

Here are some less common expenses to collect for possible tax deductions:

Nursing services: If you are paying out-of-pocket for a home-based nurse, these expenses may be deductible.

Lead paint removal: The money spent to remove lead paint from a home is deductible.

Remember, all of these unreimbursed medical expenses must be greater than 7.5% of your AGI to be deductible. Otherwise, there's no help from Uncle Sam.

Before the Holidays, Get Those Charitable Donations Lined Up: You may get this special sinking feeling as you approach Dec. 31 and realize you've done no tax planning. That includes big issues like end-of-the-year investment decisions, and the smaller ones, like the stuff you no longer use piling up in the basement. See the next topic, too.

Charitable giving is an important part of tax planning at yearend, so let's look at some of the cash and noncash aspects of giving.



You have to itemize: Only individual taxpayers who itemize their deductions on Schedule A can claim a deduction for charitable contributions.

Get out the checkbook: Uncle Sam likes a record. To deduct any charitable donation of money, a taxpayer must have a bank record or a written communication from the charity showing the name of the charity, the date, and the amount of the contribution. It helps to have both. Bank records mean canceled checks and statements from banks, credit unions and credit cards. Statements should show the name of the charity, the date and amount paid. For payroll deductions, taxpayers should retain a pay stub, or other document furnished by the employer showing the total amount withheld for charity, along with the pledge card showing the name of the charity. The IRS has gotten a lot more picky (& prickly!) in this area. Keeping accurate records is a must.

There are charities, and then there are charities: You need to make sure the organization you are contributing to is qualified to accept tax-deductible contributions. IRS Publication 78, available online and at many public libraries, lists most organizations qualified to receive deductible contributions. To access the online version, visit www.irs.gov (type in “Search for Charities”). Note that churches, synagogues, temples, mosques and government agencies are eligible to receive deductible donations, even though they often are not listed in Publication 78.

Giving away property: If you give away property, including clothing and household items, get a receipt that includes a description of the donated property. If a donation is left at a charity’s unattended drop site, keep a written record of the donation that includes a description of the property and its condition. For any kind of vehicle, boat or airplane, the deduction is now limited to the gross proceeds from its sale. This rule applies if the claimed value of the vehicle is more than \$500. Form 1098-C, or a similar statement, must be provided to the donor by the organization and attached to the donor’s tax return.

Deducting junk: Under a provision of the 2006 Pension Protection Act, contributions of physical items must be in good used condition or better to qualify for a deduction. That means that you can’t deduct ripped or discolored clothing or appliances that don’t work. If you donate noncash property that is valued at more than \$500, you need to report to the IRS how and when you acquired the property and your cost basis. You must file Form 8283, Noncash Charitable Contributions, for all donations of property valued at more than \$500.

Use that digital camera: If you’re ever audited, it helps to have photographs or video of these donated items. The video record can really help to support your detailed receipt.

Additional Year-End Tax Planning Tips: There are many sources on the web available for year end tax savings tips. At MSN.com, there are tips from Liz Pulliam-Westcott. The Wall Street Journal recently laid out a number of tips on the old saw “harvest your losses.” This relates



to using losses in taxable accounts to offset any gains, thereby avoiding capital gains taxes, along with the possibility of offsetting up to \$3,000 of ordinary (think wages) income. See the *WSJ*, 12/2/2008, page R7, "Making the Best of a Bad Year."

Let's review some of the most common techniques to save a bit on taxes in 2008. You may have heard many of these, but it's surprising how many people need an extra nudge to move forward.

Investment advisor expenses: Don't forget that your investment adviser expenses might be tax deductible as a miscellaneous expense subject to a floor of 2% of AGI.

Flexible savings accounts: Use up your funds in your Flexible Savings Account for 2008, and review the amount you're setting aside in 2009.

IRA and 401k contributions: Consider maximizing your traditional 401k contributions (and traditional IRA contributions if the deductions are deductible), especially if you believe your tax bracket will be lower in retirement than it is today.

Income and expenses: If the following choices are available to you, then consider accelerating expenses to 2008 and deferring incomes to 2009. For example, we'll pay January's rent payment on 12/31/2008 to take it as a 2008 business deduction. Further, we'll delay receipt of some income to early in January 2009.

Bunching small expenses: One technique many people can attempt is to bunch up small deductions to get over the 2% of AGI floor for miscellaneous itemized deductions. Magazine subscriptions for certain taxpayers may help in this area. One example is magazines bought with the intent of improving investment income.

For 2009, Required Minimum Distribution Changes: It looks like RMDs for 2009 will not be, well, required. Congress passed and the President is likely to sign this legislation. So, if anyone you know is required to take required distributions from an IRA or an employer plan, please stay tuned for what may be a very significant change for 2009. Be aware that RMDs for 2008 will continue to be required.

"We make a living by what we get, we make a life by what we give."

Sir Winston Churchill (1874-1965)