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Client Update

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Revising Your Financial Plan Should Never End

If you haven't done a formal financial plan, it's time to do one. But even if you have gone through the procedure, it may be time for a reassessment. Financial planning is an evolving process. Let's assume for the sake of argument that:

- ✓ You've taken stock of what you have. You've assessed your assets, investments, retirement plans, debts, commitments, etc.
- ✓ You've set goals. You have a targeted retirement date and an estimate of your retirement needs.
- ✓ You've quantified the needs of your family in the event of your premature death or disability. You've estimated the cost of your children's education and weddings.
- ✓ You've established a plan for achieving your goals, and you're sticking with your plan. You have a budget. You save regularly, and you invest your savings in a tax-favored manner.
- ✓ You have sufficient insurance to cover your health needs, long-term care needs and disability income protection. You've insured your home and other valuable assets. Your life insurance is sufficient to cover costs in the event of your death and to produce an investment portfolio sufficient to maintain your family in its customary style.
- ✓ You've written a will that disposes of your assets in the appropriate manner and restricts the government's role as a beneficiary of your estate by limiting the impact of estate and inheritance taxes.

If you can honestly say that the decisions you made the last time you revised your personal financial plan are

still valid, you are in the minority. Most of us find that the simple passage of time causes our personal and family situations to change enough to warrant revisiting our earlier decisions.

And if you've experienced a "life event" since the last time you reviewed your plan, a current update is critical. Life events include birth, adoption, death, marriage, divorce, disability, retirement and job change within your family.

Has your employer made changes to its benefits package? Are your elections current? When was the last time you checked the beneficiary designations on your insurance, 401(k) plan, etc.?

If you have a cafeteria plan, are your selections optimized? If both you and your spouse work, have you optimally coordinated your selections between the two employers?

Don't forget that the government has been active, even if your family hasn't been. Major changes to the income tax, estate tax and gift tax laws over the last few years call aspects of many personal financial plans into question.

If your will was drafted before 2001, it might as well be a hundred years old. It needs to be reviewed.

We are ready to help you analyze your personal financial plan. Call us for assistance.

Financial Insights Fall, 2004

Section 179 Deduction

Question: Property held for the production of income (investment property, most rentals) does not qualify for the Section 179 deduction, yet it appears that personal property used in a rental property does qualify. Which is correct?

It's easy to get turned around in the world of the Section 179 deduction and what does and doesn't qualify, but the answer for property used in a rental activity is that it normally does not qualify for the expense deduction. Here's why. For property to qualify for the Section 179 deduction, it must be:

1. Tangible property or, for years 2003 – 2007, computer software,
2. Section 1245 property (i.e. generally depreciable personal property) and
3. Acquired by purchase and used in the active conduct of a trade or business.

Requirement (3) above is the one that snags most rental arrangements since rental properties such as rent houses don't normally rise to the level of being treated as a trade or business for tax purposes. Whether a rental activity is a trade or business or investment activity depends on the particular facts but as a general rule, most rental activities are investment activities entered into for the production of income and Treasury Regulation Section 1.179-2(c)(6) states that property held merely for the production of income does not qualify as Section 179 property. Therefore, property acquired in connection with a rental property, such as a refrigerator or washer/dryer, is depreciable but not eligible for the Section 179 expense deduction.

Suppose a taxpayer is involved in the rental activity on a regular and continuous basis and the facts support it being a trade or business rather than an investment activity. Here, there's still another hurdle to leap before property acquired for the activity is eligible for the Section 179 deduction. Section 179(d)(1), which defines Section 179 property, includes the following statement: "Such term shall not include any property described in section 50(b) and shall not include air conditioning or heating units."

Flipping over to Code Section 50(b), we find that the most notable property mentioned there is "property used for lodging", but with an exclusion for property used by a hotel or motel. Thus, property acquired for use in a rental activity that is treated as a trade or business is still not eligible for Section 179 expensing if the rental is predominantly to furnish lodging,

unless it's a hotel or motel.

Quickfinder Tax Tips Newsletter, April 2006

Tax Points

The estate credit has increased for 2006. The credit will result in an increase in the applicable exclusion to \$2,000,000.

When can I dispose of my personal tax records? Tax records must be kept for three years. However, if you understate your income by more than 25%, tax returns/records must be kept for six years. If your return is fraudulent or you do not file, there is no limitation. It is also very important to retain all records relating to the following: investments, home, stocks and bonds, collectibles, retirement savings, etc., for as long as you own them in addition to the limitation period.

Entertainment deductions. Entertainment expenses are not deductible unless the entertainment has come before or followed a "substantial business discussion." Have a business meal with an associate before or after the entertainment event. Be sure to keep a record of the date, time, place and the business topic which was discussed. This supports a 50% deduction of the cost of the meal and the entertainment event.

When you own a regular C corporation, retain the real estate your corporation uses in your own name instead of having the corporation own it. **Benefits:** You receive rental income from the business, which can be partially sheltered from tax by the depreciation expenses you can claim for the real estate. Your corporation can deduct the rent it pays you, which lowers its tax bill, and you can sell the real estate and pay capital gains at favorable capital gain tax rates.

Create estate tax savings by giving a minority interest in your business to family members. For estate tax purposes the value of a minority interest in a closely held business is often discounted 30% to 40% due to the lack of marketability and lack of management control.

Client's Tax & Financial Update, May-June 2006