Financial Fitne$$

Taxing Tips: Rebates, Deductions & Planning

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Finding additional funding sources for your financial goals should be an ongoing objective. Proper understanding of the tax code and its changes offers individuals and businesses the opportunity to boost their funds significantly. This year is no exception.

The item that has received the most attention is the Tax Rebates that will be forthcoming as part of the Economic Stimulus Plan approved by Congress and signed by the President. Whether you agree or disagree with them politically, it behooves qualifying taxpayers to take advantage of their benefits.

Below are some of the key items to watch for this year:

TAX REBATES The average taxpayer is unaware of exactly what they can be expecting and if they even qualify to receive these rebates. Here are the basic highlights:

The checks are scheduled to begin being mailed in early May of 2008. The Treasury Department is estimating that it will take up to 10 weeks for checks to be sent to all qualified individuals who file by the April 15th filing deadline.

The checks will benefit 117 million low and middle income households. The checks will not be limited to households with earned income. Recipients of Social Security and Veterans Benefits will also qualify for these rebates. Single taxpayers with adjusted gross incomes of less than $75,000 and married couples with adjusted gross incomes of less than $150,000 will qualify for full rebates.

Single filers who qualify for the full rebate can expect to receive $600 rebates while married couples who qualify can expect to receive $1200. In addition, households with dependent children (defined as any child under 17 who is related to the taxpayer by blood, marriage, adoption or foster arrangement and whom the taxpayer can claim as a dependent), will receive an additional $300 per child with no limit on eligible children. People with no income but at least $3000 in income from Social Security and Veterans Disability will get checks for $300 each or $600 for a couple.

Taxpayers who exceed the maximum amount for full rebates may still qualify for a partial rebate depending on their income. The rebated amount will be reduced by 5% of the amount earned above the applicable thresholds. For example, if a single taxpayer has an adjusted gross income of $80,000, the check would be reduced by $250 (5% of $5000). The point at which the rebates would be completely phased out would be $87,000 for single filers and $174,000 for married filers.

Now that you have determined whether you will be receiving this benefit or not, you must determine how you will utilize it. Will you use it to pay down credit card debt at 12% and higher? Will you use it to make a purchase what you wouldn't have otherwise considered? Will you invest the windfall for the future? These are all viable alternatives for the funds. *What you choose to do with any amount of money is the heart of financial planning*. It is the art of allocating funds for current consumption while socking some away for a rainy day.

PMI DEDUCTION Another major change in the tax laws pertains to PMI or Private Mortgage Insurance. This is an insurance policy that is required by mortgage companies if your down payment or equity in your home is less than 20%. Originally the break was supposed to be a 1 year deduction for 2007 but has been expanded to include any such payments made in 2007-2010. As with any other item in the tax code, there are qualifications in order to claim this deduction. This is available for PMI policies that were issued in 2007 and later. The full deduction is available for single taxpayers whose AGI is under $50,000 and married taxpayers whose AGI is less than $100,000. The amount of the deduction is reduced by 10% for each dollar in AGI that exceeds until it is fully phased out at $60,000 for single taxpayers and $110,000 for married taxpayers.

HOME-SALE EXCLUSION FOR SURVIVING SPOUSES Under pre-2008 tax law, married couples could exclude up to $500,000 of profit realized from the sale of their primary residence without incurring any federal income taxes. A surviving spouse was also entitled to this exemption if they sold the residence in the year that their spouse passed away. However, if they delayed sale into the next tax year, they would have seen their exempt amount fall to the $250,000 level that is allowed for single taxpayers. This caused great hardship for many newly widowed taxpayers who were being required to make snap decisions regarding the sale of their home in order to preserve their exemption. Now, thanks to a provision in the Mortgage Debt Forgiveness Act, these restrictions have been eased. Taxpayers have up to two years to sell the primary residence while still claiming the full $500,000 exemption.

ZERO % CAPITAL GAINS TAXES Taxpayers in the 10 and 15 percent tax brackets will be able to sell assets that they have owned for 1 year or longer without paying any capital gains taxes. This provision is currently set to expire in 2010. What this means is that for planning purposes, if a taxpayer has an appreciated asset that they will be looking to liquidate at some point in the near future, it may be in their best interest to do this before 2010 if they qualify for the zero tax status. The qualifications for this status are taxable income of under $32,550 for single filers and taxable income of under $65,100 for married filers.

These are just some of the changes that may affect your tax outcome. There are others which also can have significant financial impact on a filer's tax liability. Some of these would include: changes in amounts that can be contributed to retirement plans, standard deduction amounts and exemption values.

Be prudent! Sharpen your pencil, pay only the tax that is due and find new funding to ratchet up retirement accounts, save for your children's education or pay down debt.

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Kurt Rusch, President of Rusch Financial, is a financial advisor with over twenty years of experience in the areas of: retirement, investment and financial planning, health insurance and property protection. Working as a "broker", Rusch is affiliated with numerous major carriers and investment companies, which allows him to present the best health and wealth plans for individual and small business clients personally tailored to their specific needs and preferences. Direct all questions to: 847-635-9126 or email Kurt at: rusch@ameritech.net. Consultation fees will be waived for CWM Readers upon request. -**CWM**

P.S. If you're still pulling your hair out over the thought of filing your taxes this year, give Kurt a call!