As a courtesy to others during this meeting, please silence your electronic devices.
Thank you.

Get Active:
2014 Legislative Advocacy Conference
February 11, 2014
I. The Affordable Care Act of 2010 (The Health Care Bill)

A. Additional Medicare Payroll Taxes-starting 2013

The Patient Protection Act, as amended by the House Reconciliation Act, broadens the Medicare tax base for higher income taxpayers by:

1. Imposing an additional of 0.9 percent on earned income in excess of $200,000 for individuals and $250,000 for families; and

2. Imposing an unearned income Medicare contribution of 3.8 percent on investment income for individuals with AGI above $200,000 and joint filers with AGI above $250,000.

Net investment income includes interest, dividends, royalties, rents, gain from disposing of property, and income earned from a trade or business that is a passive activity. Self-employed individuals, as well as estates and trusts, would also be liable for the additional tax. Distributions from qualified retirement plans, including pensions and certain retirement accounts, would be exempt from paying the additional tax. For example, income from individual retirement accounts (IRAs), 401(a) money purchase plans, 403(b) and 457(b) plans would be exempt.

B. The Health Insurance Exchanges

1. The Premium Assistance Credits
2. Comparison Shop

C. The Individual Mandate

II. Why is the S-corporation the Entity of Choice by so many tax professionals?

Here is an example of how an S-corporation could save you in SE taxes if you were a one person S-corporation.

Example: The taxable income generated by your S-corporation business is estimated to be $100,000 for 2013 before you pay yourself. You take a $50,000 salary. Only that amount is hit with the 15.3 percent federal Social Security and Medicare tax, which amounts to $7,650. You can withdraw the remaining corporate cash flow in the form of distributions to yourself that will not be subject to SE taxes (this will be added to your personal income on which you will pay tax at your current tax bracket).

If you operate the same business as an LLC or sole proprietorship (assuming one owner) where each member is subject to SE taxes, you owe SE tax on your entire $100,000 profit, for a total of $14,130 ($100,000 x .9235 = $92,350 x 15.3%). Operating as an S-corporation could save you thousands ($14,130 — $7,650 = $6,480).
Remember: You must be able to show that a $50,000 salary is reasonable. If the IRS thinks it’s too low, it may try to reclassify all or part of your purported cash distributions as disguised wages. Future tax bills look to possibly remove this tax break.

III. Common Red Flags that Can Put You on the IRS RADAR

A. Making Too Much Money

Although the overall individual audit rate is about 1.03%, the odds increase dramatically for higher-income filers. 2012 IRS statistics show that people with incomes of $200,000 or higher had an audit rate of 3.70%, or one out of every 27 returns. Report $1 million or more of income? There’s a one-in-eight chance your return will be audited. The audit rate drops significantly for filers making less than $200,000: Less than 1% (0.94%) of such returns was audited during 2012, and the vast majority of these exams were conducted by mail.

B. Failing to Report All Taxable Income

The IRS gets copies of all 1099s and W-2s you receive, so make sure you report all required income on your return. IRS computers are pretty good at matching the numbers on the forms with the income shown on your return. A mismatch sends up a red flag and causes the IRS computers to spit out a bill. If you receive a 1099 showing income that isn’t yours or listing incorrect income, get the issuer to file a correct form with the IRS.

C. Taking Large Charitable Deductions

We all know that charitable contributions are a great write-off and help you feel all warm and fuzzy inside. However, if your charitable deductions are disproportionately large compared with your income, it raises a red flag.

D. Claiming Rental Losses

Normally, the passive loss rules prevent the deduction of rental real estate losses. But there are two important exceptions. If you actively participate in the renting of your property, you can deduct up to $25,000 of loss against your other income. But this $25,000 allowance phases out as adjusted gross income exceeds $100,000 and disappears entirely once your AGI reaches $150,000.

E. Deducting Business Meals, Travel and Entertainment

Schedule C is a treasure trove of tax deductions for self-employeds. But it’s also a gold mine for IRS agents, who know from experience that self-employeds sometimes claim excessive deductions. History shows that most underreporting of income and overstating of deductions are done by those who are self-employed. And the IRS looks at both higher-grossing sole proprietorships and smaller ones.

F. Writing off a Loss for a Hobby Activity
Your chances of "winning" the audit lottery increase if you have wage income and file a Schedule C with large losses. And if the loss-generating activity sounds like a hobby -- horse breeding, car racing and such -- the IRS pays even more attention. Agents are specially trained to sniff out those who improperly deduct hobby losses. Large Schedule C losses are always audit bait, but reporting losses from activities in which it looks like you're having a good time all but guarantees IRS scrutiny.

G. And Others

IV. IRS Releases the Dirty Dozen Tax Scams for 2013 (Source-IRS)

IR-2013-33, March 26, 2013

WASHINGTON — The Internal Revenue Service today issued its annual “Dirty Dozen” list of tax scams, reminding taxpayers to use caution during tax season to protect themselves against a wide range of schemes ranging from identity theft to return preparer fraud.

The Dirty Dozen listing, compiled by the IRS each year, lists a variety of common scams taxpayers can encounter at any point during the year. But many of these schemes peak during filing season as people prepare their tax returns.

"This tax season, the IRS has stepped up its efforts to protect taxpayers from a wide range of schemes, including moving aggressively to combat identity theft and refund fraud," said IRS Acting Commissioner Steven T. Miller. "The Dirty Dozen list shows that scams come in many forms during filing season. Don't let a scam artist steal from you or talk you into doing something you will regret later."

Illegal scams can lead to significant penalties and interest and possible criminal prosecution. IRS Criminal Investigation works closely with the Department of Justice (DOJ) to shutdown scams and prosecute the criminals behind them.

The following are the Dirty Dozen tax scams for 2013:

A. Identity Theft
B. Phishing
C. Return Preparer Fraud
D. Hiding Income Offshore
E. “Free Money” from the IRS & Tax Scams Involving Social Security
F. Impersonation of Charitable Organizations
G. False/Inflated Income and Expenses
H. False Form 1099 Refund Claims
I. Frivolous Arguments
J. Falsely Claiming Zero Wages
K. Disguised Corporate Ownership
V. TAX WRITEOFFS FOR THE SELF EMPLOYED

A. Business Expenses

You are allowed to deduct those business expenses which are “ordinary and necessary.” However, you must be engaged in a business with the purpose of producing a profit. Since “ordinary and necessary” are general terms, it might be helpful if we expand that definition. Those expenses which are helpful, needed, appropriate, customary, usual, or normal have been generally accepted as business expenses.

Ask yourself: does this expense help me in the production of income? Is it needed? Is it an appropriate expense? If you can answer yes to any of those questions, then record and document the expense.

An exception to the above broadened definition is if the expenses are for personal, family or living expenses, then they will be personal expenses.

B. Advertising/Promotion Expenses

Expenses paid by a self-employed individual to promote himself/herself or a property are deductible. They may include:

- Auto graphics
- Name riders
- Digital photography
- Fact sheets or property flyers
- Business cards
- Personal advertising
- Giveaways such as those used in farming, e.g. pens, pencils, calendars, potholders, etc.
- Literally, anything spent on advertising/promoting of the business

Note: As discussed later in this material, a decision will have to be made by the business owner as to whether a given expense is advertising/promotion or entertainment.

C. Vehicle Expenses

You have a choice of either deducting the actual operating costs of your car when used for business or using a flat IRS allowance based on the business mileage traveled during the year. The allowance is in lieu of deducting your actual expenses, however, you may add business parking fees, tolls and the business interest expense on the car loan to the mileage allowance. Should you choose to deduct actual expenses the first year you own the car, then you may not use the auto allowance in later years for that car.

For tax purposes, the miles you drive your car are classified in one of three categories:
Recordkeeping to appropriately classify the miles driven in a given tax year is the responsibility of the taxpayer. Now the IRS wants contemporaneous records. The simplest way to keep accurate records is to record your odometer reading at the beginning and end of each business day. It may be presumed that those miles driven before the start or after the end of each day are personal miles. It is also important to record the odometer reading at the beginning and end of each year. This will enable the taxpayer to determine the total miles driven in a year. Your daily record will allow you to determine the business miles driven.

The following is an excerpt from IRS Publication 463 regarding the use of SAMPLING for keeping records on the use of the vehicle for business. Note that this “sampling” only applies to the use of a business vehicle, and not to other business recordkeeping requirements.

**Sampling.** You can keep an adequate record for parts of a tax year and use that record to prove the amount of business or investment use for the entire year. You must demonstrate by other evidence that the periods for which an adequate record is kept are representative of the use throughout the tax year.

**Example.** You use your car to visit the offices of clients, meet with suppliers and other subcontractors, and pick up and deliver items to clients. There is no other business use of the car, but you and your family use the car for personal purposes. You keep adequate records during the first week of each month that show that 75% of the use of the car is for business. Invoices and bills show that your business use continues at the same rate during the later weeks of each month. Your weekly records are representative of the use of the car each month and are sufficient evidence to support the percentage of business use for the year.

When you leave home, you are commuting to your office or to your first business stop. However, when you go from one business activity to another you are incurring business mileage.

In 1990 the Internal Revenue Service issued Revenue Ruling 90-23 which states that if your first stop is for an appointment, then your mileage from your residence to the first stop and afterwards is considered business mileage. Ditto for the trip home, assuming you make a genuine business stop. However, in the case of a qualified Office In Home, Revenue Ruling 90-23 is not needed, as the minute you leave your qualified office in home, you are on the business clock, even if going directly to another office. You are now traveling between offices and it is totally deductible. Also keep in mind that in order to claim a qualified home office, strict requirements must be met. These requirements are covered later in this material.
1. Business vs. Personal

Once we have determined how many miles we have driven in a year and how many of those miles are either commuting or personal, we know that the balance must have been business. Now we are able to select one of two methods to determine our business expense deduction on Schedule C or other business tax return.

2. IRS Optional Mileage Rates

Commencing in 2013, the standard mileage rate is 56.5 cents per mile. In 2014 the standard mileage rate will be 56 cents per mile. In addition to the standard cents per mile allowance, you can deduct the business parking, tolls, AND the business percentage of the vehicle interest expense on the loan, if applicable.

3. Actual Costs

As an optional approach to using the mileage rates, a taxpayer may keep a record of all expenses associated with the operation of the car. Then the taxpayer may deduct that percentage of expenses which is for business. The business percentage is established by dividing the total business miles driven in the tax year by the total miles driven.

For example:
- Business miles driven: 18,000
- Total miles driven: 24,000
- Business percentage: 75%

Examples of actual expenses are licenses, taxes, car washes, repairs, insurance, interest, oil and lube, fuel costs, depreciation etc.

4. Cost Recovery or Depreciation

In addition to those actual expenses incurred in operating your business car, you may add to your expenses a deduction for cost recovery or depreciation. If you use your car more than 50% for business usage then you are allowed to use the MACRS (Modified Accelerated Cost Recovery System). This system is accelerated in a fashion, in that it allows you to deduct larger amounts in the first three years of owning the car. However, after the third year the taxpayer's deduction is limited until the car is fully depreciated. Should you use the business car less than 50% then you are limited to a straight line cost recovery. The useful life of a car is 5 years.

5. The 2012/13 Luxury Vehicle Depreciation Limits

Luxury autos (Note: the definition of “luxury” is not by vehicle, but by the cost of the vehicle)

The new law also raises the Code Sec. 280F limitations on “luxury” auto depreciation. Ordinarily, the first-year limit on depreciation for passenger automobiles cannot exceed $3,160 (inflation adjusted). The new law raises the
cap once again, this time to $8,000 if bonus depreciation is claimed for a qualifying vehicle (for a maximum first-year depreciation of no more than $11,160; $11,360 for vans or trucks). If the vehicle is not predominantly used for business in a subsequent year, then bonus depreciation must be recaptured. The depreciation cap was enacted because Congress did not want the Code subsidizing the use of luxury vehicles by businesses. **These numbers all reflect 2012 and 2013 numbers. We do not know what these numbers will look like for 2014 until Congress decides to extend certain tax provisions.**

To put all this in perspective, assume that you spend $60,000 today on a 100 percent business-use vehicle and you want to deduct as much as possible this year. Your first-year deduction for both depreciation and expensing is

- $60,000 on a new or used qualifying pickup truck;
- $46,000 on a new qualifying SUV
- $32,000 on a used qualifying SUV
- $11,160 on a new car
- $3,160 on a used car

### D. Home Office

A home office deduction may include real estate taxes, insurance, mortgage interest, utility costs, etc. In addition, depreciation may be included. To figure depreciation, the basis of the home is the lower of the fair market value of the entire house at the time you started to use a part of it for business, or its adjusted basis. Only that part of the cost basis allocated to the office is depreciable.

To calculate that portion of the above mentioned expenses which would be for business, a business percentage must be determined. This is figured by dividing the area used for the home office by the total area of the home. If the rooms of the home are about the same size then the number of rooms may be used to determine a percentage.

The expenses which would be deductible under the home office rules would be shown on the appropriate lines of Schedule C.

You may operate your business from your home; however, in order to deduct your expenses associated with your home office you must be able to prove that you use the home area designated as your home office exclusively for business and on a regular basis. **In addition, the tax law change of 1998 removed the “principal place of business” test and replaced that test with a more relaxed requirement that the office in home be used on a substantial basis for the management and administrative tasks of running the business.** This new “substantial” requirement also means that there is no other space where the self-employed person performs “substantial” management and administrative tasks of running the business. The compliance with the above tests must be strictly adhered to. If your office is not where you perform the substantial management or administrative tasks of running the business and you do not use it exclusively, then your deduction will be lost. Note: many accountants tell their clients that if they have an office to go to, for example, the brokers office, that the home office
deduction is not allowable. That is not what the law says, and careful adherence to the rules would allow the deduction. Also note that the new regulations dated 12/23/02 do not require the allocation of the gain between the office and residence when the home is sold. This is truly a win-win situation for the self-employed, inasmuch as the only amount of gain on the sale of the residence that will probably be taxable is due to any depreciation claimed on the home office after 5/6/97. And that amount is generally a very small number.

Since the burden of proof is on the taxpayer, you must be able to prove that your home office qualifies. The IRS suggests that you keep a daily planner noting the hours you spend on the business each day, especially if you have another office that you can use. Furthermore, the taxpayer's total deduction may not create a business loss. In other words, your home office expenses are limited to the amount of income produced. However, unused home office expenses may be carried forward to a tax year in which they can be used.


E. The Home Office Deduction 2.0

Most practitioners have regarded the Home Office deduction as a red flag for an IRS audit. In fact, this deduction seems to make every top ten list of issues that the IRS targets. In early January, 2013, the IRS issued Revenue Procedure 2013-13, announcing a so-called safe harbor home office deduction. The reasoning behind the issuance of this Revenue Procedure is to reduce the administrative, recordkeeping, and compliance burdens of determining the allowable deduction for certain business use of a residence under §280A.

This material covers this Revenue Procedure and provides a comparison of the new vs. the old rules.


This revenue procedure provides an optional safe harbor method that individual taxpayers may use to determine the amount of deductible expenses attributable to certain business use of a residence during the taxable year. This safe harbor method is an alternative to the calculation, allocation, and substantiation of actual expenses for purposes of satisfying the requirements of §280A of the Internal Revenue Code. The basic premise of this Revenue Procedure provides a deduction based on $5.00 per square foot, with a maximum of 300 square feet limitation. Therefore, the maximum deduction that can be claimed under this safe harbor is $1,500.00. This revenue procedure is effective for taxable years beginning on or after January 1, 2013.

F. Travel, Meals, and Entertainment

Business trip expenses while away from home are deductible. These would include:

- Transportation
- Hotel and lodging
- Meal costs (50%)
• Tips and baggage charges
• Taxis and or bus fares
• Telephone
• Cleaning and laundry

You must meet the “away from home overnight” test in order for these costs to be deductible. Lavish or extravagant or personal expenses while on vacation are not allowed.

Only 50% of the cost of meals and entertainment may be deducted. Receipted bills are required if the expense is $75 or more.

Reciprocal meals are not deductible. That is when taxpayers trade off buying lunch for each other.

*Note:* As mentioned earlier in the material, situations will arise where money has been spent, and the question comes up as to whether the expense is entertainment (50%) deductible, or advertising/promotion, which would be 100% deductible. An excellent example of this would be a client appreciation event, where food, music, entertainment, etc. is provided. Is this entertainment or is it advertising/promotion. You should have a thorough discussion with your tax professional about this question.

G. Business Gifts

Deductions for gifts to business customers and clients are limited to $25 per person. You and your spouse are treated as one person. A partnership for this rule is also considered one person.

Exceptions to the $25 limitation would be advertising items which costs less than $4, i.e. potholders, pens, pencils, etc., or incidental costs of wrapping, insuring or mailing the gift. Theater or sporting event tickets where you accompany your customer or client are entertainment, not gifts. If you do not accompany them, you may elect to treat the tickets either as gifts subject to the $25 limitation or as entertainment subject to the 50% limitation.

H. Communications

Those expenses associated with business telephone may also be deducted. This would include long distance business calls from home. Pay phone costs, if any does this anymore, beeper costs, cellular telephone costs (unless used for personal reasons), voice mailbox, etc., are deductible. Note that the IRS has won many court cases on the disallowance of personal use of the cell phone as a business write-off, so recordkeeping is essential on this issue. My personal recommendation is to NEVER claim 100%, instead use a realistic business percentage that fits your situation. Again, a discussion with your tax professional is recommended.

I. Hiring Your Family Members
Hiring your family members (spouse and children) as employees of your real estate business can provide you with significant tax benefits.

There are many business-related jobs family members can perform which you may pay for and deduct the cost thereof. For example, opening your business mail, writing checks, filling invoices, organizing client lists and customer files, cleaning your business office or business car, assisting in obtaining comparables, stuffing envelopes, etc.

One of the primary benefits of hiring children is that you pay them deductible salaries instead of giving them non-deductible allowances.

The employment must be a bona fide employer/employee relationship and the wages paid must be reasonable in relation to the services rendered.

The wages that you pay to your children under 18 are not subject to Social Security (FICA) and Federal Unemployment Taxes. In 2014 each person, as a single taxpayer, is allowed a standard deduction of $6,200 against earned income. Therefore, you may pay up to $6,200 of tax deductible (to you) wages before your child must pay any tax on that income.

You may further increase your tax deductions by having your child contribute the maximum amount of $5,500 to an IRA.

J. The IRC 105 Medical Reimbursement Plan

For those of you lucky enough to be covered under a spouse’s employer-provided group medical insurance plan, consider yourself lucky and this topic is not that relevant to you. However, for those of us in the room that are paying dearly for medical insurance, the question and tax issue of getting the best deduction for these costs is of pivotal importance. On top of that, for the roughly 14% of you listening to this seminar that have no medical insurance, obtaining the insurance coverage is of first importance, and having the IRS partially subsidize the cost through tax deductions is the second issue.

The basics of the IRC 105 medical plan:

This is not a government insurance plan—in fact, I wish it were. It is merely an IRS approved method of getting the biggest tax savings that you can, if you are eligible and you are willing to “jump through the hoops” in terms of paperwork.

The three basic requirements for using this technique are:

1. You must be married. Sorry singles, but I did not write this law.
2. You must be paying your own health insurance.
3. You must be self-employed.

In order to qualify, the self-employed individual must hire their spouse as an employee and pay wages commensurate with the work performed. By doing so, the employer spouse can be covered under the health insurance of the employee spouse and the entire amount of health insurance premiums plus out-of-pocket unreimbursed medical expenses are deductible as business expenses on the business tax return.
The key to this issue is that the expenses are deductible on the business tax form, which means that the deduction will save both income taxes as well as social security taxes, and possibly state income taxes. The alternative to this is claiming the deduction on the front page of the 1040, which in 2012 or 2013 is a deduction of 100% of the medical insurance premiums, but the unreimbursed out of pocket medical expenses are deductible as an itemized deduction on Schedule A of the tax return, and are only deductible if they exceed 7.5% of adjusted gross income. (In other words, probably no deduction).

The following example illustrates how a typical compensation package is determined:

Todd owns his own business. Todd’s wife, Amy, provides a valuable service to the business by keeping the books, answering the phones, typing, filing, and so on. Todd decides to formally employ Amy and take advantage of a Section 105 medical plan. While establishing a compensation package for Amy, Todd evaluates her experience and the vital role she plays in the business. Todd compensates Amy $16,000 total per year in the following way:

1. Reimbursement for family health insurance premiums $10,000
2. Reimbursement for uninsured medical expenses $3,000
3. W-2 cash wage $3,000

TOTAL $16,000

By allowing for a 100% federal, state, and FICA tax deduction of the $13,000 of reimbursed expenses, Todd would receive significant tax savings by taking advantage the Section 105 plan.

Managing the plan:

The most important concept surrounding a Section 105 plan is legitimate employment between spouses or any other named employee. This issue is closely scrutinized by the IRS, and it is absolutely vital that the relationship be in existence. Fabricated relationships are absolutely discouraged. Therefore, the following items must be in place to assure the Plan operates smoothly and the tax advantages are maximized:

- A written employment agreement
- A log of hours worked by the employee
- An established cash (salary) compensation payment amount and schedule
In addition, it is recommended to:

- Name the insured (it is preferred that the insurance policy be in the employee’s name)
- Maintain separate checking accounts (one for business use and the second for personal use)
- Pay for medical expenses (all medical expenses for the family should be paid by the employee from her/her personal account), and document all payments

Qualified medical expenses:

Medical expenses included under this type of plan are those defined in Section 213 of the Internal Revenue Code. As a general rule, medical care includes amounts paid for diagnosis, cure, mitigation, or treatment of a disease. Appropriate expenses include, but are not limited to:

- Health insurance premiums
- Deductibles
- Physician fees and medical supplies
- Prescription costs
- Dental care fees
- Vision care fees
- Chiropractor care fees
- Psychiatric care fees
- Hospital bills
- Laboratory fees
- Orthodontia costs
### VI. Understand Your Profit and Loss

#### I. INCOME STATEMENT (Profit and Loss)

#### II. FOR:  

<table>
<thead>
<tr>
<th>FROM:</th>
<th>TO:</th>
</tr>
</thead>
</table>

| INCOME: | | |
|---------| | |
| Gross Receipts or Sales | | $_________ |
| GROSS PROFIT | | $_________ |
| Other Income | | $_________ |
| **GROSS INCOME** | | $_________ |

#### III. EXPENSES:

| V. | | |
|-----| | |
| Advertising | $_________ | Rent (Other) | $_________ |
| Amortization | | Repairs | $_________ |
| Contract Labor | $_________ | Supplies | $_________ |
| Car & Truck Expenses | | Taxes | $_________ |
| Cleaning & Maintenance | | Travel | $_________ |
| Commissions | | Meals/Ent (50%) | $_________ |
| Depreciation & Sect. 179 | | Utilities | $_________ |
| Employee Benefits | | Telephone | $_________ |
| Freight | | Wages | $_________ |
| Insurance | | | |
| Interest (Mortgage) | | | |
| Interest (Other) | | | |
| Legal & Professional | | | |
| Office Expense | | | |
| Pension/Profit Sharing | | | |
| Rent (Machinery/Equip) | | | |
| **TOTAL EXPENSES** | | $_________ |

| NET PROFIT OR LOSS | $_________ |
VII. Put more of your hard earned money away for later

INCREASE IN RETIREMENT PLAN CONTRIBUTION LIMITS

The limits on contributions to retirement plans are increased as shown on the following table.

<table>
<thead>
<tr>
<th>Year</th>
<th>IRA</th>
<th>Simple</th>
<th>401(k)</th>
<th>Def Cont SEP</th>
<th>% of Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>5500</td>
<td>12000</td>
<td>17500</td>
<td>51000</td>
<td>20/25</td>
</tr>
</tbody>
</table>

Catch-up Contributions for individuals 50 years or older for certain Plans:

- IRA or ROTH IRA: $1,000
- SIMPLE PLANS: $2,500
- 401(k): $5,500

Note: The SEP IRA does not allow catch-up contributions
The 401(k) series

- A good way to increase retirement plan contributions on lower levels of profit. (or S Corporation Salaries)
- Must be started by end of first year, you can’t wait until the following year to set up like a SEP IRA
- Only problem is that if a self employed person is not maximizing contributions to their current retirement plan, they won’t do it to the 401(k) either

The 401(k) series

- Solo (k) or Safe Harbor 401(k)
- Profit $50,000 $80,000 $220,000
- Cont: $17,500 $17,500 $17,500
- +25% 12,500 20,000 33,500*
- =401(k) $30,000 $37,500 $51,000
- If 50+ $35,500 $43,000 $56,500
- vs SEP $10-12K $16-20K $50,000
VIII. Consider Purchasing Investment Real Estate in this market

The IDEAL Formula

I Income from Cash Flows
D Depreciation Deductions
E Equity Buildup
A Appreciation
L Leverage

APP---Property Evaluator (IPHONE ONLY)

IX. The Health Savings Account (HSA)

A. What is an HSA?
   1. An HSA is an innovative approach to health insurance signed into law in
      December of 2003, made available January 1st 2004
   2. An HSA plan has 2 components:
      a. A qualified high deductible health insurance plan
      b. An Individual Tax-exempt Trust (savings/investments)

B. Why an HSA?
   1. To combat the rising cost of healthcare
   2. Recent trends in cost- shifting from employers to employees is noticeable,
      and has employees vested in finding a solution to the problem
3. To make the healthcare system cost-efficient by reducing the subsidies inherent in a third-party payment system

4. Reward individuals that efficiently manage their healthcare dollars

5. Desire for individuals to take more control over HOW medical dollars are spent

6. Provide a lifetime savings vehicle for medical expenses

7. Individuals want to have more control over their financial destiny

8. With a an HSA, Health insurance plans start looking AND COSTING like other types of insurance i.e. auto, homeowners

C. Who is eligible for an HSA?

1. An individual needs to be covered by a QUALIFIED high-deductible health plan to set up a Health Savings Account

2. In addition, individuals cannot be:
   a. covered by a health plan that is not a qualified high-deductible plan
   b. claimed as a dependent on someone else’s tax return
   c. entitled to Medicare benefits (age 65 or older)

Note: A spouse can have single coverage under an HSA, if they are not covered under the other spouses plan. The account however, is for the individual covered under the HSA qualified plan only.

3. HSA rules are determined at the federal level. Individuals may be eligible under state guidelines (domestic partners, civil unions etc.) for qualified-health insurance coverage, BUT not eligible to open the savings account portion of the plan.

D. Is an HSA right for everyone?

1. No. While many people will benefit from the creation of HSA’s; individual insurance alternatives, situations and personal preferences will determine if it is the right type of coverage. Individuals that HSA’s will benefit most are people that save money on premiums from other insurance alternatives, and that will systematically fund the savings account.

2. A good starting point is to look at recent years medical spending, and calculate the total dollar amount that would have been spent on premiums and medical expenses under terms of the HSA qualified plan. Compare it to the actual amount spent in the same period for insurance premiums, co-pays and co-insurance.
HSAs (Health Savings Accounts): HSAs were enacted as part of the Medicare Bill in late 2003. These types of accounts were looked on favorably as a more liberalized version of the MSA. HSAs allow anyone under the age of 65 who enrolls in a “high deductible” health plan to contribute amounts up to certain limitations, which change every year. The current dollar minimums / limitations for 2012 are:

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Individual</td>
<td>Family</td>
</tr>
<tr>
<td>Minimum required health plan deductible</td>
<td>$1,250</td>
<td>$2,500</td>
</tr>
<tr>
<td>Maximum allowed health plan deductible</td>
<td>$6,250</td>
<td>$12,500</td>
</tr>
<tr>
<td>Maximum allowed out-of-pocket limit</td>
<td>$6,250</td>
<td>$12,500</td>
</tr>
<tr>
<td>Contribution Limit</td>
<td>$3,250</td>
<td>$6,450</td>
</tr>
<tr>
<td>Additional contribution for individuals age 55-64</td>
<td>$1,000</td>
<td>$2,000</td>
</tr>
</tbody>
</table>

Note: The real benefit of HSA is threefold.

1. The plans allow the participant(s) to lower their monthly medical premium costs by raising the annual deductible. Of course, the flip side of this is that the participant(s) are exposed to more medical expenses paid out of their own pockets before the insurance kicks in.

2. The plans allow the participant(s) to contribute, tax deductible, fairly significant amounts annually to their HSA.

3. Any funds withdrawn to pay for qualified medical expenses are tax-free.

X. Invest In The Education of Your Children, Grandchildren Or ?

529 COLLEGE SAVINGS PLANS

• What is a 529 Plan?
  – It is an education savings plan operated by a state or educational institution designed to help families set aside funds for college costs
  – 529 Plans are usually categorized as either prepaid or savings, or some element of both
  – Every state now has at least one 529 plan available
  – www.savingforcollege.com

What is so great about 529 Plans?

• 1. Unsurpassed income tax breaks
• 2. You (the donor) stay in control of the account
• 3. Hands off easy way to save for college
• 4. Everyone is eligible to take advantage of a 529 Plan
• 5. Amounts donor can contribute are substantial
XI. CONSIDER THE REAL ESTATE IRA

A. Introduction

This opportunity is legal although few professionals really understand the details. This opportunity is very complex, although after you have done it once, the process does not seem that difficult. This opportunity is like a ladder, at the first rung, everyone can quickly grasp the details, but as you climb the ladder, the higher rungs become much more difficult to both understand and to implement. I have used the phrase, “Many are called but few are chosen” to emphasize that while many, many, many real estate agents get very excited about the possibilities of this investment, if 10% of them actually follow up and make the investment I would be surprised.

B. Terminology

1. The ability to purchase real estate in a retirement plan includes ALL retirement plans. This means that the following retirement plans can own real estate properties.
   
a. IRA  
b. ROTH IRA  
c. SEP (Simplified Employee Pension)  
d. 401(k)  
e. Profit sharing plan  
f. Money purchase plan  
g. Defined benefit plan

Custodian or Trustee-A custodian or trustee is required for all individual account arrangements. These two terms are synonymous. A custodian or trustee must be a bank, federally insured credit union, savings and loan institution, or other entity approved by the IRS to act as trustee or custodian. An individual cannot qualify as trustee or custodian. The trustee or custodian is the entity which is responsible for receiving and holding contributions and plan assets; maintaining accurate records of contributions, earnings, distributions, and other relevant records; making distributions to beneficiaries, and providing annual statements to account holders. The most commonly used name for these custodians or trustees is SPECIAL ASSET TRUSTEE, and the 5 better known SAT’s are:

   a. Equity Trust, Elyria, OH  
b. Fiserve, Denver, CO  
c. Pensco  
d. Sterling Trust, Waco, TX  
e. Chicago Trust Administration

C. Advantages

Among the most obvious advantages of investing retirement plan assets in real estate properties are:

1. Income tax (Federal and State) deferral. Keeping the money that would otherwise be paid in taxes in the investment
2. Investing in what you know as opposed to conventional investment vehicles such as stocks, bonds, and mutual funds that you may not understand as well
3. Investing in what you can control
4. If a ROTH IRA is used to own the real estate properties, the opportunity for tax-free profits, as opposed to tax deferred profits is available

D. Disadvantages

Not all is a bed of roses with this investment alternative. The following list provides reasons why you should not consider the Real Estate IRA.

1. The federal income tax rates, both marginal and capital gains rates, have never been lower. So paying your taxes now, (owning the property outside of your retirement plan) may be a wise decision.
2. Any tax write-offs attributable to the rental property owned by the retirement plan are not deductible
3. Complexity, complexity, complexity!!!!
4. Finding professional advisors that know what they are doing
5. Avoid Prohibited Transactions!!! These are:
   a. Personally borrowing money from your retirement plan
   b. Selling property to your retirement plan
   c. Receiving unreasonable compensation for managing the property
   d. Using the retirement plan as a security for a loan
   e. Purchasing property for personal use with your retirement plan funds