FYI

Checklist for Gleaning Planning Ideas From Your Form 1040

We're trying something new this year. When w-2s, 1099s and other tax reporting information start finding their way to your mailbox, typically showing up is our firm's "Tax Return Organizer". We do this in an effort to help clients organize their information and to make our professional time and resultant fees most productive. Although it's generally blank the first year we prepare your returns, prospectively the computer generated organizer typically has the prior year's information printed for easy comparison. Again, all to hopefully facilitate and streamline the compliance process.

CPAs and other professional advisors use checklists to assist them all the time. Well, instead of just gathering your data and focusing just on the return preparation, we thought it a good idea to give you a checklist of your very own. Using my 1040 as a starting point, I know these are the type of pro-active questions I'd run by my tax advisor (if I had one). Why not ask yours? Remember, tax, estate and financial planning is a "year-round" activity.

You're not sure how to use it? Feel free to give us a call at 856-489-5559 or direct your questions to taxplanning@aboandcompany.com

Marty Abo

Filing Status

1 Marriage penalty. ☐ Yes ☐ No ☐ N/A

Although the world doesn't revolve around taxes, when there's a marriage in the works, you, as a happy couple, should at least be made aware of the tax results of holding the wedding this year or next. For example, if you and your spouse work, do you understand the tax impact of stacking one spouse's income on top of the other's (i.e., more of your income will be taxed in the lower brackets as two single people than in your combined tax brackets as a married couple)?

2 Divorce planning. ☐ Yes ☐ No ☐ N/A

If your marriage is unstable, you're in the process of divorcing or have recently been divorced:

a. Have your wills, trust instruments, and other documents been reviewed and reworked as needed? ☐ Yes ☐ No ☐ N/A

b. Have beneficiary designations on retirement plan accounts and life insurance policies been reviewed? ☐ Yes ☐ No ☐ N/A

c. Have the levels of life insurance coverage for you and your former spouse been reviewed? (One of you may need to adjust your coverage to ensure that children or other dependents are sufficiently provided for.) ☐ Yes ☐ No ☐ N/A

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Each month more than 4,000 business owners and individuals find valuable information on our website which is done totally in-house and updated constantly. Check us out at www.aboandcompany.com

A Publication of

Abo and Company, LLC

Certified Public Accountants
Litigation & Forensic Consultants

Plaza 1000 at Main Street, Suite 403
Voorhees, NJ 08043
856/489-5559 • fax 856/489-5577
www.aboandcompany.com

Filing Status

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d. Were steps taken to make sure property settlements will be tax-free? ☐ Yes ☐ No ☐ N/A

e. Was the tax basis of each asset considered in determining anequitable split of property? ☐ Yes ☐ No ☐ N/A

f. Are planning opportunities available (for example by varying the amount of taxable/deductible alimony versus nontaxable/nondeductible child support) to shift income from the higher bracket spouse to the lower bracket one? ☐ Yes ☐ No ☐ N/A

3 Asset protection strategies. ☐ Yes ☐ No ☐ N/A
For married folks, asset protection planning is particularly useful where only one spouse has a high risk of exposure to creditors' claims (because of your profession or other activity). By retitling and rebalancing property between the two of you as a couple so that the high-risk spouse's assets are primarily exempt, and placing nonexempt assets in the low-risk spouse's name, creditors of the high-risk spouse can be legally and effectively thwarted with minimal expense and inconvenience.

a. Is it feasible to convert marital property to separate property of one spouse (typically the lower-risk spouse) to place the property out of the reach of the other spouse's potential creditors (since marital property is subject, in varying degrees, to creditors' claims against either spouse)? [Transfers between spouses should be documented by a written marital agreement (i.e., simply making a gift is not enough). Also, you should take advantage of state laws that exempt certain assets (such as homesteads and/or retirement assets) from creditors' claims.] ☐ Yes ☐ No ☐ N/A

Interest and Dividend Income

1 Municipal bond swaps. ☐ Yes ☐ No ☐ N/A
If you hold municipal bonds that have decreased in value due to rising interest rates, was a bond swap considered to recognize the loss without reducing cash flow?

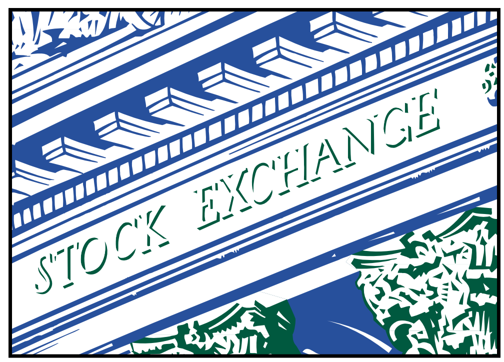
2 Asset protection strategies. ☐ Yes ☐ No ☐ N/A
Have you structured your financial institution accounts properly to maximize FDIC insurance coverage?

3 Taxable versus tax-exempt-interest. ☐ Yes ☐ No ☐ N/A
Has a calculation of your after-tax return on interest-bearing securities been made to determine if it would be appropriate for you to own tax-exempt securities?

4 Fixed-income investments. ☐ Yes ☐ No ☐ N/A
Do any of your investments consistently generate income or appreciate in value in an amount greater than the applicable interest rates published by the IRS? (If so, are you aware that you could retain an annuity interest from these investments while gifting the remainder to family members and achieve substantial estate tax savings via a GRAT or GRUT or a charitable remainder trust?)

5 Title of investment assets. ☐ Yes ☐ No ☐ N/A
If any of your investments are titled as a Joint Tenant With Right of Survivorship (JTWROS) (you can frequently tell by looking at the Form 1099s), are you aware the disposition of those assets at death will not be controlled by your will (which could thwart otherwise effective estate planning)?

6 Diversification of investments. ☐ Yes ☐ No ☐ N/A
If dividend income reported on Form 1040 indicates that you are too heavily concentrated in one stock, has consideration been given to diversifying your investment portfolio as a way to manage investment risk?



Taxable IRA Distributions

1 Beneficiary designations. ☐ Yes ☐ No ☐ N/A
Have the impact of beneficiary designations and the election to recalculate life expectancies on the amount of minimum required distributions been reviewed and coordinated with your cash flow needs and estate plan?

2 IRA rollovers. ☐ Yes ☐ No ☐ N/A
If a distribution from a qualified plan includes employer securities, has the benefit of not rolling over the securities (which would trigger paying tax based on the basis of the securities and, if you're under 59?, the 10% early distribution penalty) been compared to rolling the securities into an IRA (and losing the benefit of capital gain treatment on future appreciation and the basis step-up at death, plus facing imposition of the minimum distribution rules)?

3 Roth IRAs. ☐ Yes ☐ No ☐ N/A
After considering your estate plan and overall family financial plan, has consideration been given to converting at least a portion of your traditional IRAs to a Roth IRA?

Wages

1 Salary from closely held company. ☐ Yes ☐ No ☐ N/A

If you receive a salary from a closely held company, has consideration been given to increasing or decreasing your salary to minimize the overall tax liability for you and the company?

2 Business succession planning. ☐ Yes ☐ No ☐ N/A

If you receive a salary from a business entity you own, have you considered business succession planning?

a. Does the corporation have a comprehensive buy/sell agreement in place? [If so, is it funded (e.g., with life and/or disability insurance)?] ☐ Yes ☐ No ☐ N/A

b. If you want to transfer a business to your children at your death, do you understand the estate tax benefits of the qualified family owned business deduction (and will it be necessary to restructure the estate to meet the deduction's requirements)? ☐ Yes ☐ No ☐ N/A

3 Company retirement plans. ☐ Yes ☐ No ☐ N/A

If the "Pension Plan" or "Deferred Compensation" box on your Form W-2 was checked, are you aware of the impact of beneficiary designations and the default plan provisions pertaining to the recalculation of life expectancies on the amount and taxation of distributions?

a. Are you aware of the required beginning date for retirement plan distributions? ☐ Yes ☐ No ☐ N/An

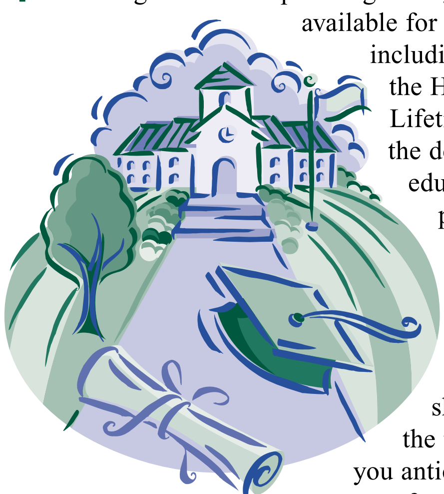
b. Do you understand that retirement plan distributions are subject to both income and estate tax? (If you are charitably inclined, it may be feasible to designate a charity as the beneficiary to avoid both types of taxes.) ☐ Yes ☐ No ☐ N/A

4 Company life insurance. ☐ Yes ☐ No ☐ N/A

If your Form W-2 indicates you received employer-provided life insurance coverage, was consideration given to ways to keep the value of the insurance out of your estate?

Dependents

1 Education expenses. ☐ Yes ☐ No ☐ N/A



Significant tax planning strategies are available for college expenses, including taking advantage of the Hope Scholarship Credit, Lifetime Learning Credit, and the deduction for interest on education loans. Proper planning will help you maximize your tax benefit from these credits by carefully timing when qualified education expenses are paid, determining who should claim the credit, and the type of credit claimed. If you anticipate incurring college expenses for your children:

a. Have tax-effective college savings and investment programs been implemented? ☐ Yes ☐ No ☐ N/A

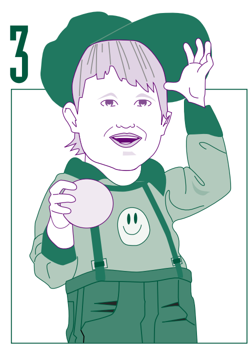
b. Were any savings strategies implemented in conjunction with financial aid planning? (Financial aid awards of $5,000–$10,000 per year are common, often equalizing the cost of public and private schools. Such awards often exceed the benefits of tax savings from alternative strategies.) ☐ Yes ☐ No ☐ N/A

c. Has any college planning taken into account the transfer (gift) tax implications, especially if you're a grandparent who has no legal obligation to support your grandchildren? ☐ Yes ☐ No ☐ N/A

2 Supporting relatives. ☐ Yes ☐ No ☐ N/A

If you are supporting an elderly or infirm parent, does the parent have an estate plan? (If yes, has it been reviewed recently to determine if it meets the current needs of the family?)

3 Child care expenses. ☐ Yes ☐ No ☐ N/A



If exemptions are claimed for children, are you aware of the types of expenses that may qualify for the child care credit, including payments to maids, relatives, and day-camps? (Alternatively, if the your employer offers a flexible spending account for child care expenses, have you considered taking advantage of it to pay for child care expenses with pretax dollars?)

4 IRAs for children. ☐ Yes ☐ No ☐ N/A

If your children have earned income, should they set up individual retirement accounts (IRAs) not only to reduce taxes but also to get an early start on accumulating funds for their eventual retirement. (A Roth IRA for a child may be the best wealth accumulation vehicle in such a situation.)

5 No tax benefit. ☐ Yes ☐ No ☐ N/A

If you will not benefit from dependency exemptions because adjusted gross income (AGI) is too high, has consideration been given to intentionally failing the support test if the child would benefit from claiming his or her own exemption? (This could also allow the child to claim a Hope or Lifetime Learning credit.)

Sole Proprietorships and Farms

1 Form of business.
☐ Yes ☐ No ☐ N/A

In light of issues such as legal liability and double taxation, is another legal form of business appropriate (e.g., corporation, limited liability company)? [Single-member LLCs, where permitted by state law, generally are preferable to sole proprietorships because of their liability limitation advantage. For federal income tax purposes, there is no difference between the two because the final check-the-box regulations allow single-member LLCs owned by individuals to be treated as sole proprietorships.]

2 Employing family members.
☐ Yes ☐ No ☐ N/A

Do you understand the tax benefits of employing family members in the business? [Advantages include (1) shifting income to lower tax rate family members, and (2) reducing self-employment income by employing a child under age 18.]

3 Retirement plan deductions.
☐ Yes ☐ No ☐ N/A

As a self-employed individual, have you considered taking advantage of the deductions allowed through (and the income compounding benefits of) Keogh, SIMPLE, or SEP retirement plans?

4 Health care costs.
☐ Yes ☐ No ☐ N/A

Do you understand the tax advantages of medical savings accounts? (Within limits, contributions to the accounts are deductible and distributions are tax-free if used for medical expenses.)

5 Asset protection planning.
☐ Yes ☐ No ☐ N/A

If you're concerned about liability protection for a sole proprietorship, in addition to insurance and other asset protection strategies, have you considered trying to make unprotected assets unattractive to potential creditors? [For example, by transferring ownership of a building used by the business to the children and then arranging to rent it back from the children.]

6 Special-use valuation.
☐ Yes ☐ No ☐ N/A

If you intend to transfer a business or farm to family members at death, would you benefit from restructuring your estate to meet the special-use valuation rules?

7 Self-employment tax.
☐ Yes ☐ No ☐ N/A

Have appropriate opportunities to reduce self-employment tax been considered (such as incorporating a sole proprietorship if a substantial portion of the business income is plowed back into the business, leasing property from a your spouse if you are a sole proprietor, employing a child in the business, and monitoring the degree of participation of LLC members in the business)?

Capital Gains or Losses

1 Gifting or donating appreciated securities.
☐ Yes ☐ No ☐ N/A

Are you aware of the tax benefits of gifting or donating appreciated stock or mutual fund shares? (For example, you avoid the gain recognition, receive a charitable deduction equal to fair market value for property held over a year, and the gain is taxed at the donee's generally lower tax bracket in the case of a family gift.)

2 Mutual fund capital gain distributions.
☐ Yes ☐ No ☐ N/A

If you have significant mutual fund capital gain distributions, are you aware that some equity mutual funds are more tax efficient than others? [Lack of control over recognition of capital gains is a general disadvantage of owning mutual funds compared to individual stocks.]

3 Capital loss carryover.
☐ Yes ☐ No ☐ N/A

If a capital loss carryover exists, do you have unrealized capital gains that can be recognized to utilize the carryovers?

4 Installment sale income.
☐ Yes ☐ No ☐ N/A

If unrecognized installment sale income exists, do you have unrecognized capital losses that could be recognized to offset the installment gain?

Passive Activities and Rental Real Estate

1 Passive activity losses.
☐ Yes ☐ No ☐ N/A

If unused passive activity losses exist, have your passive investments been reviewed to determine if any should be sold to free up some losses?

2 Special loss allowance.
☐ Yes ☐ No ☐ N/A

If your use of the special $25,000 rental loss allowance is restricted because of excessive adjusted gross income (AGI), has consideration been given to ways to reduce AGI (such as shifting income or deductions from one tax year to another, reducing AGI via a retirement plan contribution, or restructuring investments to reduce AGI)?

Other Income and Adjustments to Income

1 Social Security benefits.
☐ Yes ☐ No ☐ N/A

If at least a portion of your social security benefits are taxable, have techniques to reduce your AGI been considered (such as making IRA or Keogh contributions, claiming a Section 179 deduction for business property, and investing in growth stocks or Series EE bonds rather than investments that generate current ordinary income)?

2 Other earned income.
☐ Yes ☐ No ☐ N/A

If you receive director's fees or other miscellaneous consulting fees, has consideration been given to setting up a retirement plan to shelter a portion of the income?

3 IRA choices.
☐ Yes ☐ No ☐ N/A

If you are considering contributing to an IRA, was a determination made as to whether a traditional deductible or nondeductible IRA or Roth IRA is the better choice? (The amount of AGI and coverage by an employer plan may affect the available choices.)

4 Keogh/SEP/SIMPLE contributions.
☐ Yes ☐ No ☐ N/A

A Keogh (especially a defined benefit Keogh), SEP, or SIMPLE plan can generate sizable deductions; however, normally contributions must also be made for your employees. In lieu of qualified retirement contributions, have you considered a charitable remainder trust to generate retirement income? (You receive a charitable deduction for the contribution to the trust and an annuity for life or a term of years. Plus, there's no requirement to offer the benefit to employees.)

Standard and Itemized Deductions

1 Alternate standard and itemized deductions.
☐ Yes ☐ No ☐ N/A

If your itemized deductions normally don't exceed or just barely exceed the standard deduction, have you considered trying to shift itemized deductions to alternating years? (By bunching deductions every other year, you may realize savings by claiming the standard deduction in the intervening years.)

2 Medical expenses.
☐ Yes ☐ No ☐ N/A

If you're self-employed, have you considered employing your spouse and trying to push your unreimbursed medical expenses plus your health insurance premiums over to Schedule C (where they would reduce both income and self-employment tax) by setting up a medical reimbursement plan for your employee-spouse?

3 Real estate taxes.
☐ Yes ☐ No ☐ N/A

If you're subject to alternative minimum tax (AMT), are you aware that real estate taxes claimed as an itemized deduction aren't deductible for AMT purposes (and thus should be paid in non-AMT years if possible)?

4 Vacation home.
☐ Yes ☐ No ☐ N/A

If you have a vacation home as indicated by the real estate taxes and/or mortgage deductions, do you eventually plan to transfer ownership of the home to other family members? (If so, you could avoid estate and gift taxes by gifting fractional interests in the property to these family members over an extended period of time. Alternatively, a qualified personal residence trust may be appropriate.)

5 Advanced charitable giving strategies.
☐ Yes ☐ No ☐ N/A

If you are high wealth individual who is charitably minded, have you considered the use of a private foundation, charitable trusts, retirement plan assets, life insurance, and/or charitable gift funds?

Tax Computations and Penalties

1 Kiddie tax.
☐ Yes ☐ No ☐ N/A

If you have children subject to the kiddie tax, would you benefit from restructuring investments held in their name to minimize current investment income (for example, more growth stocks, municipal bonds, Series EE bonds, and life insurance products)?

2 Alternative minimum tax (AMT).
☐ Yes ☐ No ☐ N/A

If you are or will likely be subject to the AMT in the near future, has appropriate planning taken place to minimize the tax and maximize the available minimum tax credit?

3 Early distribution penalty.
☐ Yes ☐ No ☐ N/A

If you took distributions from a retirement plan or IRA prior to age 59?, have the available exceptions to the 10% early withdrawal penalty been considered?

4 Underpayment penalty.
☐ Yes ☐ No ☐ N/A

If you appear to be subject to the underpayment penalty, have all of the exceptions to the penalty been considered? (In addition, for the current year should your withholding be increased to avoid a problem next year?)

More On Our Financial Planning Alliance

We announced in a previous newsletter that, in a continuing effort to provide all of our clients and friends with superior service, Abo and Company formed a strategic alliance with Creative Financial Group (CFG).

We realized that, in the face of varying economic cycles, heavy tax burdens and changing personal and professional lifestyles, clients want a firm that offers a full range of financial services. We're well versed in the tax and accounting implications of an individual or enterprises' finances and wanted to be of service regarding your complete financial well-being. Forming this alliance allowed us to do just that. We chose to associate with CFG after doing extensive research. We required an alliance with a company that could provide competent people, a wide selection of quality products and a commitment to high ethical standards. It is our belief that we found all of these traits in Creative Financial Group and that this alliance supports our mission to be the full-service financial firm that focuses on your needs and convenience.

CFG, an agency of New England Financial, is committed to focusing on the needs of closely-held corporations, family owned businesses, emerging entrepreneurs, and accomplished individuals and professionals. CFG was established in 1976 and services over 7,000 clients in the tri-state area. CFG prides itself in offering a full range of in-house financial expertise that delivers services and products to meet your needs.

Our goal in creating this alliance was and still is to expand our expertise and resources in order to provide our clients with additional levels of support. This relationship was not to be viewed as a merger of the two firms, does not mean that anyone other than Abo and Company, LLC will be providing accounting services to our clients and does not mean that this will be the sole financial services firm we work with. The objective in entering into this alliance was to continue to provide the superior level of accounting service required when we are chosen, only enhanced with the ability to provide a range of other financial services.

Oh, by the way, we assist just as many, if not more, non-clients of Abo and Company as we do clients. We enjoy working with other CPAs and imparting any additional insight (or prodding) we can provide. We dare you to find another CPA who has as many accountants on his or her database/newsletter mailing list as we do. It's just the way we are and always will be.

We'll look forward to the opportunity to personally introduce you to this new relationship. In the interim, you know you only need give us a call with any and all questions.

Principal Client Services of Abo and Company, LLC

TAX PLANNING AND COMPLIANCE

- Tax planning for individuals, corporations, partnerships, limited liability companies, estates and trusts
- Tax return preparation and review
- Assistance with IRS, state and city examinations and conflicts, including representation and negotiations to resolve disputes
- Tax related valuations

FINANCIAL CONSULTING

- Financial forecasts and projections
- Funding assistance, including preparation of business plans, financing negotiations and communications with lenders and investors and workouts
- Merger, acquisition and divestiture services
- Transaction structuring for financial and tax purposes
- Bank relationship consulting

DISPUTE RESOLUTION SERVICES

- Litigation support services
- Damage assessments and computations in diverse areas including family law, insurance claims, wrongful termination, personal injury, shareholder disputes, breach of contract claims, lost profit computations, and historical analyses
- Valuations of businesses
- Analysis and evaluation of opposing experts' reports and independent expert witness testimony

ACCOUNTING, AUDITING AND REVIEW SERVICES

- Design of financial statements and internal management reporting systems
- Audits of financial statements
- Compilations and Reviews of financial statements
- Budgeting, cash flow, internal control and financial statement analysis with recommendations.

MANAGEMENT CONSULTING

- Profitability analysis
- Strategic business and financial planning and general business advice
- Bookkeeping operations review and recommendations.
- Accounting systems solutions
- Assistance in defining, interviewing and hiring of financial personnel
- Controller services

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