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A tax, business, and financial planning newsletter for our clients and friends

How to Deduct the Cost of Long-Term Care Insurance

Americans are living longer and health care costs continue to increase. The cost is much higher if you or a loved one needs care in a nursing home, an assisted living facility or at home.

In many parts of the country nursing home costs are well over \$100,000 a year. The problem with living longer and not being healthy is that it could drain many retirees of their lifetime savings.

Long-term care insurance

If you are not able to handle the cost of long-term care on your own the purchase of long-term care insurance may just make a lot of sense.

How long-term care works

A 62 year old individual purchases a long-term care insurance policy that will pay \$200 a day for nursing home costs for three years or towards home care costs upon becoming too unhealthy to perform activities of daily living.

There are several insurance companies that offer long-term care insurance, which you can purchase to cover you for the benefit level you choose.

Catch: Long-term care insurance can be beneficial, but the premiums can be expensive.

For example: You purchase a policy for your mother who is in her early sixties at a monthly cost of several hundred dollars. Each year the amount is adjusted for inflation, and, Mom does not need the coverage until she is 93 years old. The premium costs would total a small fortune.



Deducting long-term care insurance

The good news is premiums paid for qualified long-term care insurance contracts are deductible, depending upon your age, as a medical expense on your income tax return.

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taxPOINTS

Buy tax-managed funds for taxable accounts. Tax-managed funds aim to sell stocks as infrequently as possible, minimizing taxable distributions to investors. Most tax-managed funds, however, buy large-capitalization stocks. Big companies make ideal investments because they have a lower risk of bankruptcy than smaller companies, and they are less likely to break out of a market-capitalization range. So investors are rarely forced to sell shares.

Careless choice of business entity. Today, your company can be a limited liability company (LLC), regular C corporation, S corporation, or other form of entity. Depending on your state and type of business, certain entities could owe less in federal and state income tax. Don't select a business entity solely on the basis of asset protection capability. This is an important factor, but federal and state tax issues also should be considered.

Loophole: Cut the tax due on the sale of a business by doing business as an S corporation. You're taxed twice when you sell the assets of a regular C corporation. First, the company pays tax on any gains and then the company's shareholders pay tax on their individual returns when they receive the remaining after-tax proceeds. By contrast, only a single level of tax applies when an S corporation sells its assets and distributes the proceeds to its shareholders.

How To Negotiate A Home Lease

Leasing a home in today's real estate market can often be an attractive alternative to buying. Furthermore, leasing with an option to buy is an increasingly popular way to acquire a home.

Whether the real estate market is strong or weak, the basic principles of lease negotiation remain the same.

- **Do not sign a lease until all negotiations are over.** Landlords are far less likely to agree to changes after a lease is signed.
- **Do not eliminate the possibility of compromise.** When you tell a landlord that you will not lease a property unless you get what you want, you effectively end the negotiations. Remember that half a loaf is better than nothing.
- **Set your priorities.** Before you begin to negotiate, decide what is important to you. It might be a new refrigerator, interior painting, or lower rent. Remember, everything is negotiable.
- **Show that you are a desirable tenant.** When a landlord feels that you will take good care of the property, you will be able to negotiate a better deal. Explain what you want in return for the fact that you are a responsible tenant.



The Look of Business Success

The visual appearance of a company can have a strong influence on how it is perceived by potential customers. Attractive landscaping, a well-designed company sign, and a clean parking lot make a good first impression on visitors. A comfortable, well-furnished reception area will reinforce the visual impact of success.

To judge whether your company has the look of success, approach your building and enter the premises as if you were a first-time visitor. Note what you see when you drive into the park-

ing lot, when you use each entrance, and when you sit in the reception area. If you notice anything that has a negative visual impact, take immediate steps to correct it. To be successful, a company should look successful.



Beware of Early Withdrawals from Retirement Accounts

Withdrawing money early from your retirement accounts can be extremely costly. An early withdrawal may not only be taxable as additional income to you but could also be subject to an additional 10% penalty tax. Common type retirement accounts include IRA accounts and company 401(k) plans. Here are some general rules and exemptions.

The IRS generally treats taking monies from your retirement accounts before age 59 ½ as an early withdrawal.

Amounts withdrawn from your retirement account must be reported to the IRS.

The 10% early withdrawal penalty tax does not apply to nontaxable withdrawals. These amounts include withdrawal of your cost of participating in your retirement account, such as, non-deductible contributions to your retirement plan.

If you transfer funds from one qualified retirement plan to another within 60 days the transaction is treated as a rollover and is not subject to income tax. The 10% penalty tax would also not apply.

Some other exceptions to the 10% penalty tax would include.

- Distributions upon death or disability of the participant.
- Distributions to a non-participating spouse, in a divorce or separation proceeding, made under a qualified domestic relations order.
- Distributions after separation from service that are part of a series of equal periodic payouts (minimum once a year) over the life, or life expectancy of the participant, or the joint lives (or life expectancies) of the participant and the beneficiary.
- Withdrawals for qualified medical expenses.

Smarter Selling

Customer Service

By far the most important aspect of good customer service is speed. Customers are universally sensitive to fast action from a vendor. Businesses that concentrate on reducing response time to inquiries, speeding up deliveries, and resolving problems quickly stand out from the competition and are ultimately more successful.

Tax Tip

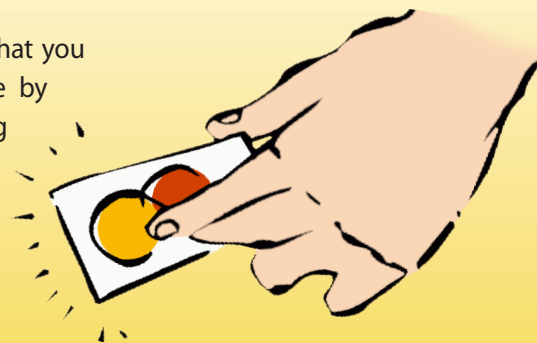
Open an IRA for your child.

You can give your child a huge jump on building a healthy retirement account by paying the child for odd jobs around the house and putting the money into an IRA. **For example**, a \$3,000 yearly contribution beginning when the child is ten will grow to more than \$1,300,000 by age 60 if the IRA averages a 7% annual return.

Personal Money Management

Using your credit card as a weapon

If you have a major complaint about a product or a service that you paid for with your credit card, you can protest the charge by writing directly to the credit card company and requesting that the amount in dispute be credited to your account. Although credit card companies are not legally obligated to honor your request, they will often do so and the argument then becomes one between you and the vendor.



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How to Deduct the Cost of Long-Term Care Insurance (continued)

The maximum yearly deductible limitation based on your age are:

Age at Year-End	2014 Maximum Deduction
40 or less	\$370
Over 40 but not over 50	\$700
Over 50 but not over 60	\$1,400
Over 60 but not over 70	\$3,720
Over 70	\$4,660

The amounts are increased each year to account for any increase in medical care. As medical expenses you are

allowed to claim these expenses as an itemized deduction and deduct total medical expenses that exceed 10 percent of your adjusted gross income. For taxpayers (or their spouses) who are age 65 or older the threshold amount is 7.5 percent.

Tax-free benefits

For 2014, benefits from an indemnity-type long-care contract, which pays or reimburses only actual long-term care expenses, are received tax free. For 2014, up to \$330 a day of insurance benefits are tax-free. This daily exclusion amount is also increased for inflation.

Family Matters

If you pay long-term care premiums for a parent or third party member, and they are shown as a dependent on your income tax return, the premiums paid can also be deducted on your tax return as a medical expense. Generally, to claim your parent as a dependent you must provide over half of your parent's support during the year.

If your parent does not qualify as a dependent, give your parent the money to pay the premiums, and in many cases your parent will then receive the tax deduction.

Better Ways to Check Credit

Today, more than ever, it's vital not to take unnecessary credit risks. In addition to Dun & Bradstreet's credit information services, you can get even more complete information from credit agencies that specialize in certain industries. Retailing, the garment industry, and automotive parts are some of the businesses with credit agencies that offer reliable information developed by industry experts.

Do Your Own Credit Investigation.

A call to the customer's bank can be very helpful. A loan officer will usually give you an idea of the company's average account balance, the company's borrowing history, whether loans are secured or unsecured (unsecured loans indicate excellent credit standing), which of the company's assets have been used as collateral, and

whether the bank has liens against key assets such as accounts receivable.

You can also ask the company for a financial statement. Many companies will not give this information to credit agencies to keep it from their competitors. However, if a company knows your inquiry is legitimate and its credit is good, it should be willing to supply a financial statement and any other credit information you need.

You can also ask the company for the names of some of its suppliers. Most suppliers will gladly tell you how much credit they extend the customer and whether the customer pays promptly.

Your lawyer can do a lien search of the county clerk's records for liens that might be placed on a company's assets because of failure to pay its bills. IRS liens will also show up in a search.

Money Makers

Get no-cost advertising.

Sell some of your advertising to other businesses. A restaurant, for example, covered the entire cost of a coupon book by charging other local retailers for including their coupons in the book, and since it controlled production of the coupon book, the restaurant put its advertising message on the cover.

