

# SOLUTIONS

1st Quarter ♦ 2008

## LATE BREAKING TAX NEWS

### Economic Stimulus Package In The Works

In response to the current decline in the U.S. economy, Congress is close to agreeing on an economic stimulus package to place money in the form of tax rebates into the hands of consumers. The rebates are expected to be \$600 for singles and \$1,200 for married couples with additional credits of up to \$300 per child under age 17. The checks are expected to be issued after the current tax filing season has completed.

The tax rebates are limited and will phase out at adjusted gross income levels of \$150,000 for married couples and \$75,000 for singles. Adjusted gross income will be based on tax year 2007. The rebates are expected to be reduced by \$50 for every \$1,000 over the adjusted gross income limits previously mentioned.

Businesses will also be encouraged to take advantage of the economic stimulus package. Eligible businesses will be allowed to expense up to \$250,000 of assets put into service in 2008. Additional bonus depreciation will be available with 50% recovery of the cost of new assets not previously expensed. The balance of the cost of purchased assets will be recovered by depreciation.

Please contact our office to discuss your eligibility for tax refunds and/or to plan for your business fixed asset acquisitions for 2008.

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## *Dear Clients and Friends*

### Selected Items From the Mortgage Forgiveness Debt Relief Act of 2007

#### Survivor's Home Sale Exclusions

The new law may help some recently widowed individuals. The new law extends the time in which a surviving spouse may use the joint-filers' \$500,000 home sale gain exclusion before being treated as a single individual who is entitled to the \$250,000 home sale exclusion.

As of January 1, 2008, the sale of a residence that had been jointly owned and occupied by the surviving spouse and the deceased spouse is qualified for the \$500,000 exclusion if the sale occurs no later than two years after the death of the individual's spouse. Some special rules about use and occupancy also apply.

#### Mortgage Insurance Deduction

In addition to foreclosure help, Congress also extended the itemized mortgage insurance deduction for three years. If you're unsure whether your mortgage insurance qualifies, call us. We'll answer your questions.

#### Foreclosure Relief

The housing boom in many areas of the country is in danger of becoming a housing bust. Problems in the lending industry, especially with so-called sub-prime mortgages, have contributed to the slide in home sales and home values. Congress and the Bush Administration have proposed a variety of measures to help homeowners who are caught in the mortgage meltdown. One measure is in the recently-enacted Mortgage Forgiveness Debt Relief Act of 2007.

When a lender forecloses on a property, sells the home for less than the borrower's outstanding mortgage and forgives all or part of the mortgage debt, the Tax Code treats the

cancelled debt as taxable income to the homeowner. The new law temporarily excludes from taxation discharges up to \$2 million of indebtedness (\$1 million for a married taxpayer filing a separate return) secured by a principal residence and incurred in the acquisition, construction or substantial improvement of the residence.

Let's consider an example. Cara's principal residence is subject to a \$300,000 mortgage. Cara's creditor forecloses in 2008. The residence is sold for \$240,000 in satisfaction of the debt later that year. Cara has \$60,000 in income from the discharge of indebtedness. Before the new law, the \$60,000 would have been includable in Cara's gross income. Now, it is exempt.

The new law also addresses mortgage workouts. Sometimes, a mortgage workout or renegotiation may result in forgiveness of indebtedness income that would be taxable. The new law helps these taxpayers by giving them a full exclusion, too.

The exclusion in the new law is temporary. Taxpayers have three years, until December 31, 2009, to take advantage of the change. The exclusion is also retroactive to January 1, 2007.

If you have any questions about foreclosure relief, please call us. We'll explain the fine points of the new law and explore whether it can benefit you. We'll also continue to monitor further developments to help taxpayers facing foreclosure, as well as reforms for the lending industry.

## Medicaid Planning

Stricter Medicaid rules recently put into effect may upset established strategies for protecting your family's wealth. These rule changes are creating opportunities to review current estate and long term care plans for both you and your parents.

In addition to providing health care for the poor, Medicaid has become a major source of financing long term care and is currently responsible for providing payment for almost half of all nursing home bills after residents spend all their money. One method of planning for Medicaid is for individuals to identify assets that will provide sufficient funding for their care. Individuals will then establish an irrevocable trust to transfer the remaining balance of assets, effectively removing the remaining assets from their estates. This method of sheltering assets has come under severe scrutiny by the government, which is not interested in financing long term care for individuals who elect to shelter assets that could be used to pay for their own living expenses.

Under new government rules established in February 2006, the look-back period for valuing personal assets has been extended from three years to five years. If an individual transfers property or money during the five year look-back period, a penalty period is created during which the transferor is ruled ineligible for government aid. The penalty period is calculated by dividing the amount of money and assets given away by the average cost of nursing home care in the area where the transferor lives. For example, if an individual gives \$100,000 to family members during the five year look-back period and nursing home care in his/her area costs \$10,000 a month, the individual's penalty period in which they can't qualify for Medicaid is ten months.

A very important change to the new rules is that the penalty period begins the day you apply for Medicaid, as opposed to the old rules when the penalty period began the day that you transferred your assets. With the penalty period beginning the day you apply for Medicaid, you essentially would have spent the majority of your savings prior to applying for Medicaid, requiring you to apply for public assistance to pay bills. You would need to have alternative sources to pay bills prior to Medicaid becoming available after the penalty period expired. Under the old rules, with the penalty period beginning the day you transferred your assets, it was possible for the penalty period to expire prior to you qualifying for government aid to pay for admittance into a nursing home or to pay other expenses.

The new changes in Medicaid require careful estate planning and may involve alternatives to elder care such as long term care insurance. Please contact our office to discuss methods of preserving your estate while ensuring you and your family's plans for Medicaid planning and elder care are up to date.

## Auto Mileage Updates for 2008

- ◆ 50.5 cents per mile for business miles driven;
- ◆ 19 cents per mile driven for medical or moving purposes; and
- ◆ 14 cents per mile driven in service of charitable organizations.

## Use Tax Voluntary Compliance Program

The Department of Revenue is 'kicking off' a Use Tax Compliance Program by educating taxpayers and tax preparers about Pennsylvania Use Tax. Use Tax should be paid when you buy taxable items for which the seller did not charge you sales tax. This frequently occurs when making online purchases or buying items out-of-state for use in PA. Most businesses that are not registered for or paying Use Tax will receive a letter from the Commonwealth of Pennsylvania requesting them to participate.

Taxpayers will be given the opportunity to review their records and voluntarily comply without paying penalties. If you are contacted by the Department of Revenue about this program, you should notify us immediately.

**Please call us with your questions and comments. We welcome the opportunity to assist you with tax, accounting, and financial planning services.**

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