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December 2004 - General Year End Planning Notes

Investment and Tax Planning Using Qualified Dividend Income

Qualified dividend income is an attractive option for some people who are looking for quarterly income from their investments in this low interest rate period. There are stocks of solid companies paying 2 or 3 percent, or more, of their stock price in annual dividends, plus some opportunity for growth in the stock price over time. Both the dividends and any capital gains received are taxed at capital gains rates that are at least 10 percent lower than ordinary income tax rates.

There are several planning considerations to evaluate if you are interested in including stocks or mutual funds that pay qualified dividends in your portfolio. These include making sure you have enough diversification and checking price-earnings ratios and other measures to assure that you are not only buying stock in solid companies but that you are also paying a low enough price that you have a strong opportunity for gains.

Tax planning is also a consideration here. If you plan on deducting investment interest on your tax return, you will want to note that you can only do so up to the amount of investment income you have. Qualified dividends can not be included in investment income for this purpose. Last tax season, I met some surprised people who were not able to deduct their investment interest on their tax returns for this reason. Now is the time to review your potential investment income and deductions so that you know what to expect for investment interest deductions, alternate minimum tax, and other related issues. This will allow you to possibly take action to improve your investment and tax situation before year-end.

What You Can Do If You File A Joint Tax Return And Your Spouse Has Income You Didn't Know About And Didn't Include on The Tax Return

There are many good reasons to file a joint tax return with your spouse. In most cases, both of you are completely open with each other about your finances and taxes, and you can take advantage of numerous deductions and credits only available to single people and married couples who file joint returns. You should still be aware that both spouses that sign a joint return are individually responsible for the tax plus any interest or penalties due on that return, even if they later divorce, and even if a divorce decree states that a specific spouse will be responsible for any amounts due on joint tax returns filed during the marriage. This is true regardless of who earns the money.

Fortunately, there are some provisions for relief. One is an injured spouse claim. This is useful if your share of the tax refund you thought you were getting from a joint return you filed with your current spouse is taken and used to help pay your spouse's child/spousal support payments or past-due taxes. IRS Form 8379 can help if this is your situation.

Another possibility is innocent spouse relief. Be careful not to confuse this with the injured spouse claim just discussed. Innocent spouse relief should be requested when you are notified of a tax liability you have from a joint tax return you filed, and you believe only your spouse (or former spouse) should be liable. To have your request approved, you must establish that at the time you signed the joint return you did not know and had no reason to know that there was an understatement of tax. You must also demonstrate that it would be unfair to hold you liable for this understatement of tax. For example, the IRS might agree that you had no way to know that your spouse withheld information from you and from your joint return when you signed it, but still determine it is fair to collect the tax from you if your spouse later dies, and you receive all of the assets in his or her estate. In this case, the spouse is liable for the tax, but you have the spouse's assets, and the IRS can still collect from those assets to settle the spouse's liability. IRS Forms 8857 and 12510 both should be completed to request innocent spouse relief. These forms should be filed as soon as possible after you become aware of the tax liability, since there are complex time limit rules impacting your ability to request relief. These time limit rules are different if you live in one of 9 community property states (including Arizona, Nevada, California, Idaho, and 5 others) than if you live in Utah or one of the remaining 40 non-community property states. These rules are beyond the scope of this article.

Year-end is a good time to sit down together as husband and wife to review any financial and tax issues you may have. Making sure you have included everything is just one of several good reasons to do so. Another is that by doing it now, you still have time before the year ends to take any action that may be appropriate to legally reduce the taxes on your activities for 2004.

Utah At-Home Parent Tax Credit

If you are close to qualifying for any of the many credits and deductions in the tax laws that have been mentioned in these articles throughout the year, year-end is a great time to double check that you complete any requirements that may remain so you actually do qualify to claim them.

Another example of these programs is the Utah At-Home Parent Tax Credit. Utah allows an at-home parent to claim a \$100 non-refundable state income tax credit on their 2004 tax return for each child born in 2004 if the following conditions are met: The at-home parent must provide full-time care for the child in their own residence and must claim the child as their dependent. The sum of gross wages and gross self-employment income for the at-home parent must not exceed \$3,000. If the at-home parent files a joint return with a working spouse, the federal adjusted gross income reported on the return must not exceed \$50,000.

Important Note!

The information in this article is intended to inform you of some of the financial opportunities provided in the tax laws or elsewhere. These laws are very complex and thus this article is not intended to give you specific advice for your personal situation. If you need such advice, please contact a qualified professional! Please call or e-mail me (doug@accuteksolutions.com) for an initial consultation to discuss your personal situation and how the tax laws might benefit you. Your first 30-minute visit is free to let you sample what we can do for you at no cost or obligation. We also invite you to submit questions you'd like to have answered in a future article!

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