



CRISER | GOUGH | PARRISH

October 2006

# Criser, Gough, & Parrish

## The Advisor

“Working together for you.”

### Are You Financially Literate?

Check out the American Institute of Certified Public Accountants' 360 Degrees of Financial Literacy Consumer Website, [www.360financialliteracy.org](http://www.360financialliteracy.org), for articles, tools, and FAQs on the following life stages:

- Childhood
- College
- Career
- Military & Reserves
- Couples & Marriage
- Parenthood
- Home Ownership
- Entrepreneurs
- Life Crisis
- Sandwich Generation
- Retirement

You'll also find the following financial topics covered:

- Business Owner
- Education Planning
- Estate Planning
- Government Benefits
- Investment Planning
- Personal Finance
- Protection Planning
- Retirement Planning
- Tax Planning

### Criser, Gough & Parrish Can Help

As accountants we spend so much time trying to squeeze the last tax deduction possible out of your tax return, we sometimes forget to step back and look at the overall financial health of you, our client. Well, let's start talking about some other things that may affect you much more than preparing your tax return:

- **Long-term Care Insurance** – There are few events that impact our financial independence more than the cost of nursing home care or assisted living. No one wants to experience this kind of event but, let's face it, it is possible. See the next page for details. Greg Gough and Brent Thummel can give you more information.
- **Financial Plan** – A financial plan is really a road map to where you want to go in the future. How can you prepare for uncertain events if you haven't even planned for the most likely events? Starla and I plan to do this soon. If you have a plan, get it reviewed at least annually. If you don't have a financial plan, GET ONE PREPARED. Greg Gough is an expert in this area and can help.
- **Estate Plan** – Wouldn't it be nice if, at your death (or mental impairment), your wishes would be followed in the way and manner of your choosing. If you care about your family DO THIS. Steve Mardis is an attorney and practices extensively in this area. Let him guide you to the correct professionals for your personal situation.
- **Business Planning** – If you own a business and have no idea what would happen if you are suddenly out of the picture, then a business succession plan is critical. Steve Mardis and Greg Gough are experts and can help with buy/sell agreements and other succession plans.
- **Tax Planning** – On April 15<sup>th</sup> there are few things that can actually reduce your income tax liability. The time of year to make tax decisions is during, not after the year has gone by. Laura Parrish and the rest of our staff are experts in this area and can have a dramatic impact on your tax liability.
- **Life Insurance Policy Analysis** – Old life insurance policies are vulnerable to becoming worthless. This is due to lower than expected investment results in many policies issued. Greg Gough would review these **at no cost** to you. Better to be safe than sorry.

I am so proud to be associated with such a talented and caring group of professionals. As our client you have the opportunity to take advantage of this expertise. We want to join your team and help you and your family prosper.

*Steve Criser, CPA*

Thank you for referring your friends and family to Criser, Gough & Parrish. We will do our very best to value your trust.

### Criser, Gough & Parrish, LLC

9415 E. Harry, Ste. 602

Wichita, KS 67207

Phone: (316) 685-1040

Fax: (316) 687-5590

Website: [www.crisergoughparrish.com](http://www.crisergoughparrish.com)

## Long-Term Care

Long-term care (LTC) is the term used to describe a variety of services in the area of health, personal care, and social needs of persons who are chronically disabled, ill or infirm. Depending on the needs of the individual, long-term care may include services such as nursing home care, assisted living, home health care, or adult day care.

### Who Needs Long-Term Care?

The need for long-term care is generally defined by an individual's inability to perform the normal activities of daily living, such as bathing, dressing, eating, toileting, continence, and moving around. Conditions such as AIDS, spinal cord or head injuries, stroke, mental illness, Alzheimer's disease or other forms of dementia, or physical weakness and frailty due to advancing age can all result in the need for long-term care.

### What Is the Cost of Long-Term Care?

Apart from the unpaid services of family and friends, long-term care is typically expensive. Some average national cost data compiled by the federal government provide a rough guide to the cost of long-term care:

- **Adult Day Care:** \$45/day (8 hours).
- **Meals on Wheels:** \$52/week (10 meals).
- **Unskilled Home Care:** \$8-\$16 per hour. Rate for skilled home care is higher.
- **Assisted Living Facility:** Ranges from \$900 to \$3,000 per month.
- **Nursing Home:** \$160 per day (\$58,400 per year).

### Paying for Long-Term Care — Personal Resources

Much long-term care is paid for from personal resources:

- **Out-of-Pocket:** Expenses paid from personal savings and investments.
- **Reverse Mortgage:** Certain homeowners may qualify for a reverse mortgage, allowing them to tap the equity in the home while retaining ownership.
- **Accelerated Death Benefits:** Certain life insurance

policies provide for "accelerated death benefits" (also known as a living benefit) if the insured becomes terminally ill.

- **Private Health Insurance:** Some private health insurance policies include coverage for limited period of at-home, or nursing home care, usually directly related to a covered illness or injury.
- **Long-Term Care Insurance:** Private insurance designed to pay for long-term care services, at home or in an institution, either skilled or unskilled. Benefits will vary from policy to policy.

### Paying for Long-Term Care — Government Resources

Long-term care that is paid for by government comes from two primary sources:

- **Medicare:** Medicare is a health insurance program operated by the federal government. Benefits are available to qualifying individuals age 65 and older, certain disabled individuals under age 65, and those suffering from end-stage renal disease. A limited amount of nursing home care is also available under Medicare Part A, Hospital Insurance. An unlimited amount of home health care is also available, if made under a physician's treatment plan.
- **Medicaid:** Medicaid is a welfare program funded by both federal and state governments, designed to provide health care services for the truly impoverished. The range of services covered varies from state to state. Eligibility for benefits under Medicaid is usually based on an individual's income and assets.

Some individuals will attempt to qualify themselves for Medicaid by either gifting or otherwise disposing of personal assets, sometimes known as "Medicaid spend-down." Federal legislation, however, has limited the usefulness of such tactics.

Gifts to one's spouse do not help, since the combined assets of married couples must fall within specified eligibility levels. Some assets, such as a personal residence, may be exempt from eligibility calculations.

(Source: AXA Advisors, GE23707, rev 06/06)

## Highlights of the New Pension Protection Act of 2006

If you are a participant in a traditional single-employer pension plan or a multi-employer plan, you will likely soon be hearing from your plan sponsor.

The new law not only makes permanent some important retirement savings incentives that benefit almost everyone, it also creates some new ones. The new law makes some important changes to how you deduct your contributions to charitable organizations.

### Traditional Pension Plans in Trouble

Traditional pension plans, which pay a defined benefit over a period of time, are in trouble. Many are underfunded. Others have been turned over to the Pension Benefit Guaranty Corporation (PBGC), the pension payor of last resort. The new law aims to prevent any more troubled plans from folding and dumping their obligations on the PBGC, which already has a deficit of nearly \$30 billion.

### Permanent Retirement Savings Incentives

- **Higher IRA contribution dollar amounts.** For 2006, it is \$4,000. That amount rises to \$5,000 in 2008. The new law adjusts it for inflation after 2008.
- **Higher dollar limits on defined contribution plan.** \$44,000 in 2006 for 401(k), 457s, and SIMPLE plans.
- **Catch-up contributions.** For 2006, you can make an additional catch-up contribution of \$1,000 to an IRA if you are age 50 or older. You can make an additional contribution of \$5,000 to a 401(k) plan if you are age 50 or older. The new law makes catch-up contributions permanent.
- **Roth 401(k)s.** The new law makes them permanent and this could encourage more employers to offer them.

### New and Enhanced Incentives

- You can ask the IRS to deposit your tax refund into an IRA (effective for 2007).
- The new law allows direct rollovers from a qualified retirement plan, tax-sheltered annuity or government plan directly to a Roth IRA and will treat it as a Roth conversion if all other qualifications are met (effective for 2008).
- Non-spousal beneficiaries can roll over their interests in a qualified retirement plan, government plan or tax-sheltered annuity into an IRA (effective for 2007).

- The new law allows IRA and 401(k) providers to offer personalized investment advice (starting in 2007).

### More Incentives Made Permanent

- Greater portability for 403(b) and 457 plans.
- Faster vesting of employer matching contributions.
- The Saver's Credit.
- The tax credit for start-up costs (for small businesses).

**New Rules for Charitable Donations** (effective as of the date of enactment of the new law)

- ***No deduction will be allowed for any contribution of cash, check or other monetary gift unless you can show a bank record or a written communication from the charity.*** This means you'll have to either get a receipt for every cash donation you make or make your donation by check, credit or debit card, so your bank statement will show it.
- ***Household items and clothing must be in "good condition" to be deductible.*** Other wise, they're not. There is a limited "antiques" exception for donated single items appraised at more than \$500. The IRS is expected to issue guidance about what is "good condition" in time for the 2007 tax filing season.

(Source: CCH *Federal Tax Weekly*, 8/10/2006)

### Heroes Earned Retirement Opportunities (HERO) Act

Taxpayers can now count tax-free combat pay when determining whether they qualify to contribute to either a Roth or traditional IRA.

In addition, the HERO Act allows military personnel who received tax-free combat pay in either 2004 or 2005 to go back and make IRA contributions for those years. Eligible military members will have extra time, until May 28, 2009, to make these special back-year contributions.

For those under the age of 50, the IRA contribution limit was \$3,000 for 2004 and \$4,000 for 2005. For those 50 and over, the limit was \$3,500 for 2004 and \$4,500 for 2005.

Contributions to a traditional IRA must be reported on the return for the year made. If a return has already been filed for a particular year, contributions should be reported on an amended return, Form 1040x.

The IRA contribution limit for 2006 is \$4,000 for those under age 50 and \$5,000 for those 50 and over.

(Source: IR-2006-129)

# Amounts for Telephone Tax Refunds

The Internal Revenue Service announced the standard amounts that most long-distance customers can use to figure their telephone tax refund. These amounts, which range from \$30 to \$60, will enable millions of individual taxpayers to request the telephone tax refund without having to dig through old phone bills.

In general, anyone who paid the long-distance telephone tax will get the refund on their 2006 federal income tax return. This includes individuals, businesses and nonprofit organizations. The 2006 return is usually filed during 2007.

The standard amounts are based on the total number of exemptions claimed on the 2006 federal income tax return. The standard amounts are \$30 for a person filing a return with one exemption, \$40 for two exemptions, \$50 for three exemptions and \$60 for four or more exemptions. For example, a married

couple filing a joint return with two dependent children (for a total of four exemptions) will be eligible for the maximum standard amount of \$60.

Those who paid the long-distance tax on service billed after Feb. 28, 2003 and before Aug. 1, 2006 are eligible for a refund.

Only individuals can use the standard amounts. Alternatively, individual taxpayers can choose to figure their refund using the actual amount of tax paid.

Though businesses and nonprofits must base their telephone tax refund on the actual amount of tax paid, the IRS is looking for ways to make the refund process easier for these taxpayers. The IRS is considering an estimation method businesses and nonprofits may use for figuring the tax paid.

(Source: IR-2006-137)

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## **Criser, Gough & Parrish, LLC**

Penny Rader, Editor

9415 E. Harry, Ste. 602

Wichita, KS 67207

### **Return Service Requested**

*“Working together for you.”*

Phone: 316-685-1040

Fax: 316-687-5590

Website: [www.crisergoughparrish.com](http://www.crisergoughparrish.com)

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