INCOME TAX PLANNING FOR FINANCIAL PLANNERS
2ND EDITION UPDATES

CHAPTER 2, PAGE 25, 2ND PARAGRAPH

The corrected paragraph is shown below (correction is in bold):

Section 6501 extends all statutes of limitations to six years if there is a substantial **omission** of gross income on the tax return, defined as an omission of more than 25 percent of the gross income reported on the tax return.

CHAPTER 3, PAGE 70, 1ST PARAGRAPH

The text is changed to reflect the correction to the reduction of phaseout for personal and dependency exemptions (correction is in bold).

This reduction is being phased out from 2006 through 2009. Before 2006, the entire reduction was subtracted from the exemption amount. **For 2006 and 2007, only two-thirds** of the calculated reduction must be subtracted from the exemption amount. For **2008 and 2009, only one-third** of the calculated reduction must be subtracted from the exemption amount. For years after 2009, the reduction is scheduled to go away so that the full deduction for personal and dependency exemptions will be allowed even for taxpayers, with very high incomes.

CHAPTER 3, PAGE 70, EXAMPLE 3.19

Example 3.19 is modified to correct the reduction (1/3) in the 2008 example (correction is in bold).

For 2008, Connie uses the single filing status and has adjusted gross income of $187,000. Her AGI exceeds the threshold by $27,050 ($187,000 - $159,950). She must reduce her personal and dependency exemption amount by 22%.

$27,050/$2,500 = 10.82, rounded up to 11.

2% x 11 = 22%

If Connie can claim only one exemption for 2008, the full reduction amount for the year is $770 ($3,500 x 22%). However, because the exemption reduction is being phased out, only **$256.67 ($770 x 1/3)** must be subtracted from Connie's exemption amount. Therefore, her exemption for 2008 is **$3,243.33 ($3,500 - $256.67)**.

Note: The calculation for 2009 in Example 3.19 is correct.

CHAPTER 4, PAGE 114, EXAMPLE 4.10

The calculation for the equivalent taxable rate is revised to reflect the interest rate of 4% in the calculation as 0.04.

$$\text{Equivalent Taxable Rate} = \frac{0.04}{1 - 0.35} = 6.15\%$$

CHAPTER 4, PAGE 122, EXAMPLE 4.20

Example 4.20 is modified(correction is in bold).

Tony and his wife Kate would like to make a contribution to a Coverdell Education Savings Account for their son, Jethro. Tony and Kate are married filing jointly and their AGI is $200,500. Because the are in the phaseout range, Tony and Kate will not be able to make the maximum contribution of $2,000. Instead, their contribution limit will be **reduced by $700 to $1,300 ($2,000 - $700).**

$$\$2{,}000 \times \frac{\$200{,}500 - \$190{,}000}{\$220{,}000 - \$190{,}000} = \$700$$

CHAPTER 6, PAGE 205, EXAMPLE 6.3

The example is enhanced to include the phaseout reduction calculation for the married filing jointly status for a contribution to a Traditional IRA. The example is currently based on the single filing status only. The phase out reduction calculation for married filing jointly is as follows:

MFJ Reduction = Contribution Limit X (AGI-Lower Limit/$20,000)

CHAPTER 7, PAGE 243, EXAMPLE 7.8

The example is corrected to emphasize the limitation on the deductibility of interest related to home equity mortgage indebtedness. The bold portion is added for clarification.

Pat buys a house on the Gulf Coast for $800,000 during a very high period in the market. She pays $40,000 down (5%) and takes out a jumbo mortgage for $760,000. **Subsequently, she decides to make improvements to the home and takes out a home equity loan for $60,000.** Shortly after two hurricanes, the house is appraised at $550,000. **Technically Pat can only deduct the mortgage interest related to the acquisition debt because the home equity mortgage interest is only deductible up to the fair market value of the home. Here, the acquisition debt on the home exceeds the fair market value of the property and there is no home equity available for the deductibility of home equity loan interest. The likelihood of this reduction is remote simply because of the service being unaware of the decline in value.**

CHAPTER 7, PAGE 252, EXAMPLE 7.17

Example 7.17 is changed to modify the last sentence of the example (correction is in bold).

The remaining **$50,000** of the property contribution will be carried forward for up to five tax years.

CHAPTER 7, PAGE 270, OVERALL LIMITATION ON ITEMIZED DEDUCTIONS

The overall limitation on itemized deductions is corrected as pertains to the amount the itemized deduction is reduced for tax years 2008 and 2009 under EGTTRA 2001. The third paragraph under this section is revised as follows (corrections are underlined and in bold).

Under the provisions of EGTTRA 2001, for tax years 2008 and 2009, the itemized deduction is reduced by the lesser of (1) three percent of AGI in excess of the threshold, then further reduced <u>to a</u> 1/3, or (2) 80 percent of the taxpayer's total itemized deductions, then further reduced <u>to a</u> 1/3. For tax year 2010, there will be no phaseout of a taxpayer's itemized deductions.

CHAPTER 7, PAGE 270, EXAMPLE 7.39

Example 7.39 following the above explanation is revised accordingly for mathematical error (correction is in bold).

In 2008, Charles had AGI of $259,950. Charles' total itemized deductions for 2008 were $24,000. Since Charles' income exceeded the AGI threshold for itemized deductions by $100,000 (over the phaseout), he will have to reduce his itemized deductions by $1,000 ($100,000 x 0.03 = $3,000; $3,000 x 2/3 = $2,000 (to reduce to a third); $3,000 - $2,000 = $1,000). For 2008, Charles will only be able to claim $23,000 of his itemized deductions.

In 2009, assume the same facts as above. Charles will only be able to claim $23,068.50 of his itemized deductions. Charles' income exceeds the AGI threshold of $166,800, by $93,150. He will have to reduce his itemized deductions by $931.50 ($93,150 x 0.03 = $2,794.50; $2,794.50 x 2/3 (to reduce to a third) = $1,863; $2,794.50 - $1,863 = $931.50; $24,000 - $931.50 = $23,068.50.

CHAPTER 14, PAGE 510, PASSIVE ACTIVITIES

Passive Activities on page 510 is corrected for a typographical error to the referenced section number and should read as follows (correction is underlined and in bold).

Passive income or loss is derived from the conduct of a passive activity. Section <u>469</u> defines a passive activity as any activity:

CHAPTER 15, PAGE 536, EXHIBIT 15.1, ALTERNATIVE MINIMUM TAX FORMULA

The formula is corrected to reflect that preferences are added (rather than subtracted) to arrive at alternative minimum taxable income (correction is underlined and in bold).

Taxable Income (from regular tax system)
Add: Adjustments that increase AMTI
Less: Adjustments that decrease AMTI
<u>Add</u>: Preferences
Alternative Minimum Taxable Income (AMTI)
Less: Exemptions
AMT Tax Base
Application of Appropriate AMT Rate
Tentative Minimum Tax
Less: Foreign Tax Credit
Less: Regular Tax Liability (Form 1040)
Alternative Minimum Tax (AMT)

CHAPTER 15, PAGE 537, EXHIBIT 15.3, AMT PHASEOUT THRESHOLDS

The “Phaseout Ends At” below has been revised as indicated in bold.

FILING STATUS	PHASEOUT BEGINS AT	PHASEOUT ENDS AT
Single and Head of Household	$112,500	$297,300
Married Filing Jointly and Surviving Spouse	$150,000	$429,800
Married Filing Separately and Estates and Trusts	$75,000	$214,900