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Client Information Bulletin

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New Credit Card Law Protects Consumers

Summary of key provisions in the new law

The Credit Card Accountability, Responsibility, and Disclosure Act of 2009 (CARD) was signed into law on May 22. This new federal legislation is intended to protect consumers from certain practices in the credit card industry. With a few exceptions, the CARD changes are slated to take effect on February 22, 2010. Here is a roundup of several key provisions in the new law.

Rate increases: Effective as of August 20, 2009, a credit card issuer cannot raise the interest rate on an existing balance unless the payment is late by 60 days or more. If the cardholder misses the 60-day deadline, the issuer must restore the lower rate once he or she provides six consecutive on-time payments.

Also, rates cannot be raised in the first year after a credit card is issued (six months for promotional rates). But rates may be increased for any reason on a new balance if the cardholder receives advance notice of 45 days. Currently, the advance notice requirement is only 15 days. **Caution:** There is still no cap on the interest rate increases.

Extra fees: Cardholders will not face fees for exceeding their personal limit unless they allow the issuer to approve "over-the-limit transactions." Issuers cannot charge more than one such fee per billing cycle. Also, consumers generally cannot be charged a fee to pay their credit card debt by telephone or through the Internet (although fees for expediting payment are allowed). Payment received by the due date (or the next business day if the credit card company is not accepting payments that day) will not trigger a late fee. Finally, the new law restricts introductory fees on subprime cards.

Student cards: College students and other individuals under the age of 21 generally will not be able to obtain a credit card unless they have a cosigner or they can demonstrate an ability to pay.

Double-cycle billing: The new law ends the practice of double-cycle billing. In other words, credit card companies will no longer be allowed to go back to the previous billing cycle to calculate interest charges.

Payment allocation: The current practice in the credit card industry is to apply amounts above the minimum monthly amount to low-interest balances first. This effectively extends the time it takes to pay off high-interest rate balances. Under the new law, payment must first be applied to the balance with the highest interest rate charge.

Payment deadlines: Card companies must send statements to debtors at least 21 days before payment

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is due. Currently, notice of only 14 days is required. This provision went into effect August 20, 2009.

Gift cards: The law prohibits gift cards from expiring for at least five years. Issuers cannot assess inactivity fees unless the card goes unused for one year. The new gift-card rules take effect on August 22, 2010.

Disclosures: Credit card contracts must contain language that is easily understood by consumers. This includes full disclosure of terms before a consumer opens an account. In addition, statements must prominently display all fees paid monthly and year-to-date. Issuers will also be required to provide information about credit decisions and their consequences.

This is just a brief summary of this far-reaching law. More details are available upon request.

Long-term Care Needs in the 21st Century

Critical planning issues facing families today

Due to medical advances, people are living longer than they did in the last century. In the United States, the current average life expectancy is 77.8 years. Of course, that is encouraging news. On the downside, if an elderly relative needs expensive long-term care, it could cause financial and emotional problems for the rest of the family.

Because the risk of needing long-term care increases with age, it is important to plan ahead, both for yourself and other family members. The optimal time to take steps is when you are relatively young and in good health.

Background: Long-term care is the type of help people need when they are unable to perform activities of daily living such as eating, bathing and dressing. Typically, it is not provided by doctors or by skilled nursing professionals. Long-term care does not try to cure an illness.

Frequently, it is assumed that long-term care means care in a nursing home. While some people do require such specialized care, most long-term care takes place in the home and community. Family members, adult day-care centers and assisted-living facilities are among the most common care providers. Long-term care is not defined by the setting in which it takes place, but by the type of care that is needed.

The family dynamic today little resembles that of even a generation ago. Children live half a world away, single-parent homes are more common, and more women are achieving success and financial rewards in their careers. The safety nets that many relied upon in the past—such as family caregivers—may no longer be realistic options for those requiring care.

Long-term care has an impact on the entire family, not just the person who needs care. A family member—usually, a middle-aged adult with children of his or her own—often takes on the role as unpaid caregiver for an aging parent or spouse. These caregivers typically must make adjustments at work and in their careers, such as taking leaves of absence or turning down promotions, in order to provide the needed care for an ailing relative. If you are a caregiver, this may also have an impact on your own family life and overall personal health.

One of the options available to the family is long-term care insurance. Be advised that coverage becomes more expensive for older insureds and those in poor health. The premiums may be treated as deductible medical expenses within specified annual limits.

Final words: *By planning ahead now, you may be able to preserve your savings, assets, lifestyle, independence and family life in the event you or someone you love needs long-term care. Don't ignore the risks.*

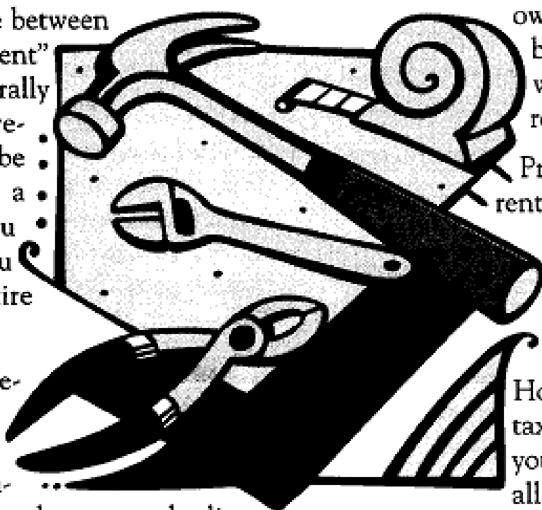
Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

Repair or Improvement? Know the Tax Rules

Critical difference for owners of business buildings

For tax purposes, the difference between a "repair" and an "improvement" is more than just semantics. Generally speaking, the cost of an improvement to business property must be capitalized and written off over a period of years. In contrast, if you simply repair a business asset, you may currently deduct the entire cost.



Some expenses are clearly improvements. For example, if you pave over vacant land and use it as a parking lot, you will have to capitalize the cost. However, in many other cases, the line between repairs and improvements is not as clear cut. Obviously, it may be in your best interest to have work labeled a repair rather than an improvement.

How do you tell the difference between the two? Here's a rule of thumb: An improvement is work that prolongs the life of the property, enhances its value or adapts it to a different use. On the other hand, a repair merely keeps property in efficient operating condition. Let's take a quick look at a few examples.

Repairs: Generally, the term includes items such as painting and wallpapering, repairing leaks in a roof, patching up cracks in a floor, or replacing a worn out or broken component of an air conditioning system.

Improvements: Replacing an old roof with an entirely new one clearly is an improvement that must be capitalized and depreciated. So is the cost of renovating an entire structure, remodeling a building to suit a different purpose, or reconditioning or rebuilding a piece of machinery.

Be aware that there are several tax pitfalls in this area. For instance, a business owner who decides to renovate, remodel or expand a building will often make necessary repairs at the same time. While this makes a good deal of economic sense, it could be a bad idea from a tax viewpoint. **Reason:** The IRS might argue that the repairs are part of the general betterment or renovation plan. In that case, the entire cost—including the repairs portion—must be capitalized.

One possible solution is to show that the two types of expenses are clearly distinguishable. For example, if an owner puts a new exterior surface on a building and makes interior repairs while the work is being performed, the repairs should be currently deductible.

Probably the best way to ensure the current deduction is to keep the jobs separate and apart. If possible, you might make all your repairs first. Then, at some later point, you can have the improvements completed.

How are homeowners affected by these tax rules? In general, the cost of repairs to your home won't do you any tax good at all. On the other hand, improvements increase your basis in the property. As a result, you can reduce any gain that would be subject to tax if you sell the home.

Therefore, it generally is more advantageous to have a home expense labeled as an improvement instead of a repair—just the opposite of the usual situation for business owners. If you are planning to renovate or remodel your home, you may want to defer any repairs that have to be made until that time and do the entire job at once.

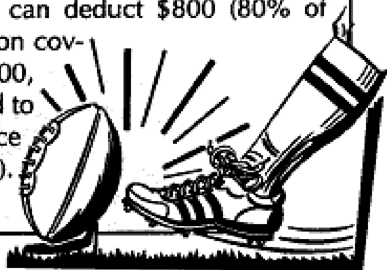
Kick Off Deductions for Booster Gifts

Do you support the football team of a local college or your alma mater? You may be eligible for a tax break for your generosity.

How it works: If you donate funds to a college booster club or similar program, you may deduct part of the payment as a charitable contribution, even if the gift provides you with preferred ticket status for games. The deduction is limited to 80% of the donation.

However, any part of the payment that goes toward actual tickets is nondeductible. You must subtract the cost of the tickets before the 80% rule is applied.

Example: John pays $1,000 a year to belong to a booster club. This gives him the right to buy season tickets to football games. If the gift does not provide any tickets in return, he can deduct $800 (80% of $1,000). But if the donation covers tickets at a cost of $500, John's deduction is limited to $400 (80% of the difference between $1,000 and $500).



Avoid the Penalty on Early IRA Withdrawals

Arranging "substantially equal periodic payments"

Where can you turn if you need cash in a hurry? One possible source is your IRA. You generally have the flexibility to tap into the account if you have to.

Caution: Your IRA is meant to be a retirement savings vehicle. So this option should be used only when circumstances dictate.

Also, consider the tax implications. IRA distributions are subject to tax at ordinary income tax rates. Plus, you generally will have to pay a 10% penalty tax if you are younger than 59½. But you can avoid the penalty if you arrange to receive "substantially equal periodic payments" (SEPPs) from the IRA.

Background: The normal penalty tax for early IRA withdrawals does not apply to SEPPs paid for the longer of five years or the time until you reach age 59½. The payments are based on your life expectancy (or the joint life expectancy of yourself and a designated beneficiary).

The IRS allows three basic methods for receiving SEPPs. If you substantially modify the payment methods before reaching age 59½ (or five years, if that is later) the penalty tax still applies. The three IRS-approved methods are:

1. Required minimum distribution (RMD) method: Under this method, the annual payment is determined by dividing the account balance by your applicable life expectancy taken from IRS tables for that year. Those numbers change annually, resulting in a slightly different payment amount each year.

2. Fixed amortization method: With this method, the annual payment is determined by amortizing the account balance over a period of years using the applicable life-expectancy table and assumed interest rate. The annual payment remains the same each year.

3. Fixed annuitization method: The annual payment is determined by dividing the account balance by an annuity factor derived from a mortality table with an assumed interest rate. As with the second method, the amount stays the same year to year.

The RMD method is the simplest option and tends to provide the smallest annual payout, while the other two methods generally provide larger payouts. Your professional advisers can help you choose the method that best fits your needs.

Note that the exception for SEPPs is applied separately to each IRA. If you maintain several IRAs, you can arrange to receive annual payments from only one of them.

***Reminder**: It is generally not advisable to invade your IRA without good reason. Use this exception to the early withdrawal penalty with discretion.*

Facts and Figures

Timely points of particular interest

➡**Divide and Conquer**—In a new case, a couple purchased a huge tract of land in Texas where they planned to build their dream home. But they later decided they didn't need the entire property. So they carved it up and sold the lots sporadically over time, mainly to friends and family members. Because advertising was minimal, the Tax Court determined the couple wasn't actively trying to sell the lots to customers. Thus, gains from the sales qualified for tax-favored capital-gain treatment.

➡**Thanking Employees**—Even if your company cannot provide employees the bonuses it has granted in the past, it is still worthwhile to recognize their contributions. **One example**: A simple thank-you letter can go a long way toward helping workers feel good about themselves. The letter is especially powerful if it is handwritten or, even if sent by e-mail, includes a personal touch. Do not use an obvious form letter. Some appreciative employees may post the thank-you note at their desks or workstations.

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