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What You and Your Family Need to Know



Tax and Financial Considerations

*The Myositis Association
2012 Annual Patient Conference
September 13-16, 2012*

Handouts

- ✎ Sample Federal Tax Return (4 Pages)
- ✎ Sample Doctor Letter – Need For Home Improvements
- ✎ Sample Doctor Letter – Need For Caregiver
- ✎ Life Expectancy Tables
- ✎ List of Resources

Medical Expenses in General

- ∞ Deductible on your 1040
- ∞ 7.5% Floor
- ∞ Commonly deductible medical expenses

Commonly Deductible Medical Expenses

- ⌘ Hospital services.
- ⌘ Nursing services (including nurse's board when paid by the taxpayer).
- ⌘ Medical, laboratory, surgical, dental and other diagnostic and healing services.
- ⌘ X-rays.
- ⌘ Medicine and drugs (limited to prescription medicine and insulin).
- ⌘ Artificial limbs.
- ⌘ Ambulance hire.
- ⌘ Transportation to and from medical facility.

What is “Medical” and What is Not? – Examples

- ⌘ Alternative or holistic expenditures – yes
- ⌘ Administered by non-physician - yes
- ⌘ Physical therapy and personal trainer – yes
- ⌘ Aqua therapy - yes
- ⌘ Vitamins – no
- ⌘ Attending this conference or a KIT meeting
 - Registration and transportation – yes

Form 1040 U.S. Individual Income Tax Return (99)		2011		ONR No. 1545-0074	IRS Use Only - Do not write or staple in this space.
For the year Jan 1 - Dec 31, 2011, or other tax year beginning 2011, ending				See separate instructions.	
JOHN SMITH Your first name		M Last name		Your social security number 000-00-000	
JANE SMITH If a joint return, spouse's first name		M Last name		Spouse's social security number 111-11-1111	
Home address (number and street). If you have a P.O. box, see instructions. 1 11TH STREET #1111				Apartment no.	
City, town or post office. If you have a foreign address, also complete spaces below (see instructions). SAN FRANCISCO, CA 11111				State ZIP code	
Foreign country name		Foreign province/county		Foreign postal code	
Filing Status					
1 <input type="checkbox"/> Single		4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here.			
2 <input checked="" type="checkbox"/> Married filing jointly (even if only one had income)		5 <input type="checkbox"/> Qualifying widow(er) with dependent child			
3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above & full name here.		6 <input type="checkbox"/> Spouse			
Exemptions					
6a <input checked="" type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a.					
b <input checked="" type="checkbox"/> Spouse					
c Dependents:					
(1) First name Last name		(2) Dependent's social security number		(3) Dependent's relationship to you	
(4) <input checked="" type="checkbox"/> Child under 19 qualifying for child tax or (see instructions)		(5) <input type="checkbox"/> Student		(6) <input type="checkbox"/> Elderly or disabled	
If more than four dependents, see instructions and check here...					
d Total number of exemptions claimed					
Income					
7 Wages, salaries, tips, etc. Attach Form(s) W-2				8	
8a Taxable interest. Attach Schedule B if required.				9	
b Tax-exempt interest. Do not include on line 8a.				8b	
9a Ordinary dividends. Attach Schedule B if required.				9a	
b Qualified dividends				9b	
10 Taxable refunds, credits, or offsets of state and local income taxes				10	
11 Alimony received				11	
12 Business income or (loss). Attach Schedule C or C-EZ				12	
13 Capital gain or (loss). Att Sch D if reqd. If not reqd, ck here.				13	
14 Other gains or (losses). Attach Form 4797				14	
15a IRA distributions				15a	
16a Pensions and annuities				16a	
b Taxable amount				15b	
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E				17	
18 Farm income or (loss). Attach Schedule F				18	
19 Unemployment compensation				19	
20a Social security benefits				20a	
20b Taxable amount				20b	
21 Other income				21	
22 Combine the amounts in the far right column for lines 7 through 21. This is your total income				22	
23 Educator expenses				23	
24 Certain business expenses of reservists, performing artists, and fee-based government officials. Attach Form 2106 or 2106-EZ				24	
25 Health savings account deduction. Attach Form 8889				25	
26 Moving expenses. Attach Form 3903				26	
27 Deductible part of self-employment tax. Attach Schedule SE				27	
28 Self-employed SEP, SIMPLE, and qualified plans				28	
29 Self-employed health insurance deduction				29	
30 Penalty on early withdrawal of savings				30	
31a Alimony paid b Recipient's SSN				31a	
32 IRA deduction				32	
33 Student loan interest deduction				33	
34 Tuition and fees. Attach Form 8917				34	
35 Domestic production activities deduction. Attach Form 8903				35	
36 Add lines 23 through 35				36	
37 Subtract line 36 from line 22. This is your adjusted gross income				37	
Adjusted Gross Income				100,000	

BAA For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions.

Medical Expenses (Cont'd)

SCHEDULE A (Form 1040)		Itemized Deductions		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ Attach to Form 1040. ▶ See instructions for Schedule A (Form 1040).		2011 Attachment Sequence No. 07	
Name(s) shown on Form 1040 JOHN AND JANE SMITH				Your social security number 000-00-000	
Medical and Dental Expenses	Caution. Do not include expenses reimbursed or paid by others.				
	1 Medical and dental expenses (see instructions) STATEMENT 2	1	20,000.		
	2 Enter amount from Form 1040, line 38	2	100,000.		
	3 Multiply line 2 by 7.5% (.075)	3	7,500.		
	4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-	4	12,500.		
Taxes You Paid	5 State and local (check only one box):	5	2,136.		
	a <input checked="" type="checkbox"/> Income taxes, or				
	b <input type="checkbox"/> General sales taxes				
	6 Real estate taxes (see instructions)	6			
	7 Personal property tax	7			
	8 Other taxes. List type and amount ▶	8			
	9 Add lines 5 through 8	9	2,136.		
Interest You Paid	10 Home mtg interest and points reported to you on Form 1098	10			
	11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying number, and address ▶				
	Note. Your mortgage interest deduction may be limited (see instrs).				
	12 Points not reported to you on Form 1098. See instrs for spcl rules	11			
	13 Mortgage insurance premiums (see instructions)	12			
	14 Investment interest. Attach Form 4952 if required. (See instrs.)	13			
	15 Add lines 10 through 14	14			
	15 Add lines 10 through 14	15	0.		
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instrs	16			
	17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500	17			
	18 Carryover from prior year	18			
	19 Add lines 16 through 18	19	0.		
Casualty and Theft Losses	20 Casualty or theft loss(es). Attach Form 4684. (See instructions.)	20	0.		
	21 Unreimbursed employee expenses — job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. (See instructions.) ▶	21			
	22 Tax preparation fees	22			
	23 Other expenses — investment, safe deposit box, etc. List type and amount ▶	23			
	24 Add lines 21 through 23	24			
	25 Enter amount from Form 1040, line 38	25			
	26 Multiply line 25 by 2% (.02)	26			
	27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0-	27	0.		
Other Miscellaneous Deductions	28 Other — from list in instructions. List type and amount ▶	28	0.		
	29 Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40	29	14,636.		
Total Itemized Deductions	30 If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>				

Medical Expenses (Cont'd)

Form 1040 (2011) JOHN AND JANE SMITH		000-00-000	Page 2
Tax and Credits		38	100,000.
39a Check <input type="checkbox"/> You were born before January 2, 1947, <input type="checkbox"/> Blind. Total boxes checked <input type="checkbox"/> 39a			
if: <input type="checkbox"/> Spouse was born before January 2, 1947, <input type="checkbox"/> Blind. <input type="checkbox"/> 39b			
Standard Deduction for – • People who check any box on line 39a or 39b or who can be claimed as a dependent, see instructions. • All others: Single or Married filing separately, \$5,800 Married filing jointly or Qualifying widow(er), \$11,600 Head of household, \$8,500	40 Itemized deductions (from Schedule A) or your standard deduction (see instructions)	40	14,636.
	41 Subtract line 40 from line 38	41	85,364.
	42 Exemptions. Multiply \$3,700 by the number on line 6d	42	7,400.
	43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	77,964.
	44 Tax (see instrs). Check if any from: a <input type="checkbox"/> Form(s) 8814 c <input type="checkbox"/> 962 election b <input type="checkbox"/> Form 4972	44	11,744.
	45 Alternative minimum tax (see instructions). Attach Form 6251	45	0.
	46 Add lines 44 and 45	46	11,744.
	47 Foreign tax credit. Attach Form 1116 if required	47	
	48 Credit for child and dependent care expenses. Attach Form 2441	48	
	49 Education credits from Form 8863, line 23	49	
50 Retirement savings contributions credit. Attach Form 8880	50		
51 Child tax credit (see instructions)	51		
52 Residential energy credits. Attach Form 5695	52		
53 Other crs from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	53		
54 Add lines 47 through 53. These are your total credits	54		
55 Subtract line 54 from line 46. If line 54 is more than line 46, enter -0-	55	11,744.	
Other Taxes		56	
56 Self-employment tax. Attach Schedule SE		56	
57 Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919		57	
58 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required		58	
59a Household employment taxes from Schedule H		59a	
b First-time homebuyer credit repayment. Attach Form 5405 if required		59b	
60 Other taxes. Enter code(s) from instructions		60	
61 Add lines 55-60. This is your total tax		61	11,744.
Payments		62	
62 Federal income tax withheld from Forms W-2 and 1099		62	
63 2011 estimated tax payments and amount applied from 2010 return		63	
64a Earned income credit (EIC)		64a	NO
b Nontaxable combat pay election		64b	
65 Additional child tax credit. Attach Form 8812		65	
66 American opportunity credit from Form 8863, line 14		66	
67 First-time homebuyer credit from Form 5405, line 10		67	
68 Amount paid with request for extension to file		68	
69 Excess social security and tier 1 RRTA tax withheld		69	
70 Credit for federal tax on fuels. Attach Form 4136		70	
71 Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885		71	
72 Add lines 62, 63, 64a, & 65-71. These are your total pmts		72	0.
73 If line 72 is more than line 61, subtract line 61 from line 72. This is the amount you overpaid		73	
74a Amount of line 73 you want refunded to you. If Form 8888 is attached, check here		74a	
b Routing number			
c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d Account number			
75 Amount of line 73 you want applied to your 2012 estimated tax		75	
76 Amount you owe. Subtract line 72 from line 61. For details on how to pay see instructions		76	11,977.
77 Estimated tax penalty (see instructions)		77	233.
Amount You Owe			
Do you want to allow another person to discuss this return with the IRS (see instructions)? <input checked="" type="checkbox"/> Yes. Complete below. <input type="checkbox"/> No			
Designee's name JOHN C. SUTTLE Phone no. 4157817728 Personal identification number (PIN) 33333			
Sign Here			
Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.			
Your signature _____ Date _____ Your occupation _____ Daytime phone number _____			
Spouse's signature, if a joint return, both must sign. _____ Date _____ Spouse's occupation _____ If the IRS sent you an identity protection PIN, enter it here (see insts)			
Print/Type preparer's name _____ Preparer's signature _____ Date _____ Check <input type="checkbox"/> if self-employed PTIN P00441833			
Paid Preparer's Use Only			
Firm's name SUTTLE & COMPANY, LLP Firm's EIN 94-3137350			
Firm's address ONE FRONT STREET, SUITE 1300 SAN FRANCISCO, CA 94111 Phone no. (415) 781-7728			

Medical Expenses (Cont'd)

Form 6251		Alternative Minimum Tax – Individuals		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		▶ See separate instructions. ▶ Attach to Form 1040 or Form 1040NR.		2011	
Name(s) shown on Form 1040 or Form 1040NR		Your social security number		Attachment Sequence No. 32	
JOHN AND JANE SMITH		000-00-000			
Part I Alternative Minimum Taxable Income (See instructions for how to complete each line.)					
1	If filing Schedule A (Form 1040), enter the amount from Form 1040, line 41 and go to line 2. Otherwise, enter the amount from Form 1040, line 38, and go to line 7. (If less than zero, enter as a negative amount.)	1	85,364.		
2	Medical and dental. Enter the smaller of Schedule A (Form 1040), line 4 or 2.5% (.025) of Form 1040, line 38. If zero or less, enter -0-	2	2,500.		
3	Taxes from Schedule A (Form 1040), line 9	3	2,136.		
4	Enter the home mortgage interest adjustment, if any, from line 6 of the worksheet in the instructions for this line	4			
5	Miscellaneous deductions from Schedule A (Form 1040), line 27	5			
6	Skip this line. It is reserved for future use.	6			
7	Tax refund from Form 1040, line 10 or line 21	7			
8	Investment interest expense (difference between regular tax and AMT)	8			
9	Depletion (difference between regular tax and AMT)	9			
10	Net operating loss deduction from Form 1040, line 21. Enter as a positive amount.	10			
11	Alternative tax net operating loss deduction	11			
12	Interest from specified private activity bonds exempt from the regular tax	12			
13	Qualified small business stock (7% of gain excluded under section 1202)	13			
14	Exercise of incentive stock options (excess of AMT income over regular tax income)	14			
15	Estates and trusts (amount from Schedule K-1 (Form 1041), box 12, code A)	15			
16	Electing large partnerships (amount from Schedule K-1 (Form 1065-B), box 6)	16			
17	Disposition of property (difference between AMT and regular tax gain or loss)	17			
18	Depreciation on assets placed in service after 1986 (difference between regular tax and AMT)	18			
19	Passive activities (difference between AMT and regular tax income or loss)	19			
20	Loss limitations (difference between AMT and regular tax income or loss)	20			
21	Circulation costs (difference between regular tax and AMT)	21			
22	Long-term contracts (difference between AMT and regular tax income)	22			
23	Mining costs (difference between regular tax and AMT)	23			
24	Research and experimental costs (difference between regular tax and AMT)	24			
25	Income from certain installment sales before January 1, 1987	25			
26	Intangible drilling costs preference	26			
27	Other adjustments, including income-based related adjustments	27			
28	Alternative minimum taxable income. Combine lines 1 through 27. (If married filing separately and line 28 is more than \$223,900, see instructions.)	28	90,000.		
Part II Alternative Minimum Tax (AMT)					
29 Exemption. (If you were under age 24 at the end of 2011, see instructions.)					
IF your filing status is ...		AND line 28 is not over ...	THEN enter on line 29 ...		
Single or head of household		\$112,500	\$48,450		
Married filing jointly or qualifying widow(er)		150,000	74,450		
Married filing separately		75,000	37,225		
If line 28 is over the amount shown above for your filing status, see instructions.					
30	Subtract line 29 from line 28. If more than zero, go to line 31. If zero or less, enter -0- here and on lines 31, 33 and 35, and go to line 34	30	15,550.		
31 • If you are filing Form 2555 or 2555-EZ, see instructions for the amount to enter. • If you reported capital gain distributions directly on Form 1040, line 13; you reported qualified dividends on Form 1040, line 3c; or you had a gain on both lines 15 and 16 of Schedule D (Form 1040) (as refigured for the AMT, if necessary), complete Part III on page 2 and enter the amount from line 34 here. • All others: If line 30 is \$175,000 or less (\$87,500 or less if married filing separately), multiply line 30 by 26% (.26). Otherwise, multiply line 30 by 28% (.28) and subtract \$3,500 (\$1,750 if married filing separately) from the result.					
32	Alternative minimum tax foreign tax credit (see instructions)	32			
33	Tentative minimum tax. Subtract line 32 from line 31.	33	4,043.		
34	Tax from Form 1040, line 44 (minus any tax from Form 4972 and any foreign tax credit from Form 1040, line 47). If you used Schedule J to figure your tax, the amount from line 44 of Form 1040 must be refigured without using Schedule J (see instructions).	34	11,744.		
35	AMT. Subtract line 34 from line 33. If zero or less, enter -0-. Enter here and on Form 1040, line 45.	35	0.		

Capital Expenditures in General

∞ Definition

∞ Example

∞ Basic Rules

- Primarily for medical care
- Substantiated

∞ Two Types

- Tangible personal property
- Home improvements

Tangible Personal Property Deductible as Medical Expense

- ✎ Non-motorized wheelchairs
- ✎ Motorized scooters and wheelchairs
- ✎ Modification of automobile to accommodate a medical condition
- ✎ Crutches
- ✎ Canes
- ✎ Walkers
- ✎ Inclinator
- ✎ Stand alone lifts (e.g., to lower one into a pool)
- ✎ Specialized utensils, such as grippers
- ✎ Eyeglasses
- ✎ Detachable (i.e., window) air conditioner for the sole use of patient

Home Improvements Deductible As Medical Expenses

- ✧ Constructing entrance or exit ramps.
- ✧ Widening doorways at entrances and exits.
- ✧ Widening or otherwise modifying hallways and interior doorways.
- ✧ Installing railings, support bars, or other modifications to bathrooms.
- ✧ Lowering or otherwise modifying kitchen cabinets and equipment.
- ✧ Altering the location of or otherwise modifying electrical outlets and fixtures.
- ✧ Installing porch lifts, elevators
- ✧ and other forms of lifts.
- ✧ Modifying fire alarms, smoke detectors, and other warning systems.
- ✧ Modifying stairs.
- ✧ Adding handrails or grab bars whether or not in bathrooms.
- ✧ Modifying hardware on doors.
- ✧ Modifying areas in front of entrance and exit doorways.
- ✧ Grading of ground to provide access to the residence.

Home Improvements

- ✎ Sample Letter from Doctor – Need For Home Improvements (see *Handout #2*).
- ✎ Two real estate appraisals.

Caregivers

- ∞ Comply with State and Federal law:
 - Immigration Law
 - Labor Law (Overtime, etc.)
 - Worker's Compensation Insurance Law
 - Payroll Tax Law

- ∞ Obtain a letter from your doctor (see *Handout #3*) for income tax purposes.

Other Income Tax Issues

- ✎ Early withdrawal from IRAs and employer retirement plans on account of disability.
- ✎ Early withdrawal from IRAs and employer retirement plans to pay medical insurance and out-of-pocket expenses.

Tax Treatment of Qualified Long-Term Care Insurance

- ∞ Premiums deductible (subject to limits)
- ∞ Benefits excludable from income
- ∞ Employer provided LTC insurance excludable from income

Long-Term Care

- ✎ Help in performing basic activities
 - Dressing
 - Bathing
 - Eating
 - Toileting
 - Continence
 - Transferring
 - Walking
- ✎ Not covered by Medicare
- ✎ Paying for it

“Qualifying” Long-Term Care Insurance

- ✎ Income Tax Definition of “LT Care Services”
- ✎ Income Tax Definition of “chronically ill”
- ✎ Income Tax Requirements for LT Care Insurance
 - No buildup of cash surrender value
 - Only long-term care provided
 - Costs covered do not include Medicare-covered costs

Life Insurance in General

∞ Term Insurance

∞ Whole Life Insurance

∞ Blended Insurance

Advantages of Life Insurance

∞ Advantages – All Life Insurance

- Income replacement
- Forced savings
- Known medical condition may make it sound investment
- Proceeds at death income tax-free

∞ Advantages – Whole Life

- Tax deferred buildup of income “inside” policy
- Potential estate tax benefits

Disadvantages of Life Insurance

- ✎ Commissions are high.
- ✎ The annual administrative cost is high.
- ✎ The rates of return are not competitive.

Assets & Sources of Income

- ✧ Life Expectancy Tables (see *Handout #4*)
- ✧ Need for Budget
 - Assets
 - Liabilities
 - Income
 - Expenses
 - Changes over time
 - Make sure to take long-term care into account
- ✧ Online software available (see *Handout #5*
— *List of Resources*)

Contact Information

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