

YOUR MONEY

The Orange County Register • Sunday, Feb. 16, 2003



The abc's of taxes

FROM THE MOUTHS OF PROS

Top questions and answers from Register's annual tax call-in.

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THE ORANGE COUNTY REGISTER

Taxes, while not a glamorous subject, were the talk of the town last week.

On Tuesday night, about 30 tax specialists, including enrolled agents and certified public accountants, fielded about 875 phone calls and e-mails in four hours from readers during the annual Register tax call-in. Some handled calls in

Spanish and others in Vietnamese.

Here are a few of the more frequently asked questions the experts tackled:

Q. I'm 78 and retired. I haven't had to file a tax return the past several years because I don't have enough gross income. In 2002, I sold stock and suffered a loss of \$17,000. My neighbor says I need to file a return. I don't think I need to file. Who is right?

A. Your neighbor. You should file a return – even if you usually aren't

required to – because you want to report the loss to Uncle Sam. If you don't, the IRS will assume the proceeds (how much you got from the sale) are taxable, and you'll get a bill. They need to know what you paid for the stock or they will assume the original cost was zero. They don't know you had a loss unless you file.

Also, if you sell more stock this

Q&A: Experts provide lessons

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year and have a gain, last year's losses can be used to offset that gain, says Brad Hall, a certified public accountant in Irvine. "In order to claim the loss carryover (up to \$3,000), you've got to file," Hall says. "A lot of people think if they have a stock loss and no income, it doesn't matter. They think they only have to file when it's a gain."

Q. Last year, I was laid off from my job. I decided to start my own company and for the past several months have been setting up my business. Are my expenses (for buying a computer and office supplies) deductible?

A. It depends. If you're just setting up – and buying things and not taking any clients – then no. However, you'd want to save your expense receipts, because the day you officially open your door for business, you'll amortize those start-up expenses over a five-year period, says Selma Goldstein, an enrolled agent in Modjeska Canyon.

If you can just open your door and start from the get-go (but later make purchases to augment your busi-

ness), those would be considered regular operating expenses and would appear on Schedule C.

The key is when you're actually ready to do business, she says. Anything you do before you start your business wouldn't be deductible until after you engage in your practice. "That means if you spend a couple of months setting up and trying to figure out what you want to do – no current deduction," she says.

Q. I sold my residence in 2002. How do I report the gain on the sale on my return?

A. If it's less than the exclusion (\$250,000 for single filers or \$500,000 for joint), you don't put it on your tax return.

But a lot of folks are confusing current tax code with old tax code, says Joe Baumgartner, a certified public accountant in Mission Viejo. Many people still think if you have a gain on the sale of your residence, you have two years to buy a new home or you pay tax on the gain.

But that rule changed in 1997. Today, if you have lived at your residence for two of the past five years you owned

it, you can completely exclude up to \$250,000 of gain (up to \$500,000 if you're married filing jointly).

Q. My wife spent several weeks in a board-and-care facility after surgery. Is that medical expense deductible?

A. Here's the rule of thumb: If you can't get along by yourself and need the special care, then yes.

In this case, your wife was sent to the facility because she couldn't take care of herself after surgery, and that makes it a medical expense, says Dona Evans, an enrolled agent in Tustin. "You can deduct whatever you paid out of pocket," Evans says. The expense would go on Schedule A under "medical."

Many times, an adult child is paying for a parent in a retirement home because the parent can't care for himself or herself. Those costs would be considered medical expenses, too, and can be deducted on your return.

Q. I bought a car in 2002 and paid \$2,611 in sales tax. Can I deduct this tax?

A. For some reason, people think they get a break on

sales tax. Sorry. "Sales tax is never deductible. Nowhere, no time, no how," says Bill Geideman, an enrolled agent in Santa Ana.

Q. I refinanced twice last year and paid closing costs of about \$4,300 each time. How do I deduct the fees?

A. You can't. The fees are added to the cost basis on the house, Geideman says.

Points paid on the first refi are instantly deductible when you do the second refi. Points paid on the second refi would be spread out over the life of the loan. So, if you paid one point on the first refi and one point on the second, that first point is fully deductible.

A lot of people also tapped the equity in their home to make improvements. If you refinanced and used the money for those improvements, the points can be deducted in full. If you took out an equity line of credit, the interest you paid is deductible as long as the collateral to the loan is the house.

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