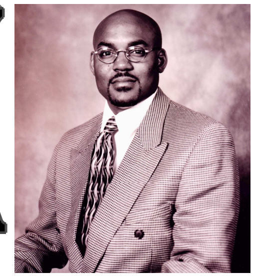
FEBRUARY 2000

WRIGHT TOTAL TAX



Innovating Financial Techniques for the New Millennium

Making Your Money Work For You, Part II

Many of you may wonder what exactly it is I do. Some of you know me as your tax preparer/advisor and some of you know me as your insurance agent. Some of you know me as your investment counselor. Okay, you got me - I am all of these things.

I did get my start in the tax arena. But an interesting thing happened when I learned more about taxes and how they work - **EVERYTHING** having to do with money is related to taxes.

Did you ever wonder how rich people keep their money? Or even how people become well off financially? They learn the system and use it to their advantage. The American money system is strange - it seems to tell you to do things and then when you do them, you end up with less than you started with. The trick is not to listen to what it TELLS you to do but to learn and practice those things that it keeps to itself.

Well, the more I learned the tax system, the more I learned the whole financial system and how it works. Because of this, one of the first things that I do with my clients now, is tell them how I operate. My goals for each and every one of my clients (unless they tell me otherwise) is to:

1. Decrease your taxes through tax planning.

2. Assist you in managing your money better through the use of debt and money management.

3. Help you increase your wealth with investments and real estate.

4. Not lose any of your hard earned money by protecting it with insurances and asset allocation.

The way that I do that for my clients is by knowing how the system works and then using the tools within that system to create and implement a plan that benefits you and achieves your goals.

Let's look at the tools and see how they not only benefit you but how they relate to taxes:

1. Life insurance - if you were to die, your family can get a lump sum of money absolutely **TAX FREE** to carry on and maintain their lifestyle. (goals number one and four)

Both car and home insurances protect your assets and the things that you have worked hard for. (goal number four)

2. Real estate - the home that you purchase often has mortgage interest that is tax deductible. And rental properties have tax advantages galore! Not only that, but real property tends to appreciate consistently. (goals number one and three)

3. Investments - mutual funds and annuities have potential tax advantages within them that allow you to not only decrease your taxes (and in some cases, eliminate them), but at the same time accumulate wealth to build your financial security. (goals number one and three)

4. Debt Management - when

Child Tax Credit Update

If you have children younger than 17 at the close of 1999 you'll be able to claim a child tax credit for up to $500, up from $400 in 1998. A qualifying child is any child for whom you can claim a dependency exemption and is your child, a direct descendant, stepchild, or an eligible foster child.

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Upcoming "Understanding Taxes" Seminar!

Making Your Money Work For You, Part II (cont)

you manage your debt (or better yet, eliminate it!), you are better positioned to implement the plan that achieves your financial goals. (goals number two and three)

Because each family is unique, no two plans are alike. Fortunately, the tools that are available can be customized and maneuvered to create the plan that best fits them and their needs.

Because the system likes to change things when too many people have caught on (or complained), the rules and even the tools, change frequently and sometimes very drastically. So, at Wright Total Tax, we work diligently to stay abreast of these changes. We also like to review your plan annually to make sure it is still doing what you designed it to do.

So you can see now, that yes, I do where all the hats of insurance agent, tax advisor, financial advisor, and even real estate counselor. But I do it to empower you with the knowledge and skills to achieve the financial security and freedom we all desire but so very often fall short of achieving.

But there is a demand on you once you receive the knowledge - use it! Do what it takes so you don't end up where you started.

REMEMBER THERE ARE TWO KINDS OF DISCIPLINE:

The Pain of Discipline

or

The Pain of Regret!!

HURRICANE FLOYD

Unfortunately, North Carolina was hit very hard by Hurricane Floyd late last year. The tax law has provisions when losses from natural disasters such as floods, tornadoes, and hurricanes occur. So you may get a tax break. Damage to your home and possessions, which occurs due to theft, fire, storm, or other natural disaster is deductible if you itemize your deductions. The loss must be reduced by any insurance or other type of reimbursement.

Are You Overwhelmed With Credit?

A few of the articles from the last newsletter dealt with credit. Credit is a major part of all of our lives—be it good, bad or nonexistent. Americans are loaded with credit-card debt.

The average American has $5000 worth, and the average rate is about 18%. That's not quite as much as loan sharks charge, but it's a drain and a trap that keeps too many people from saving.

Many of us have overextended ourselves and have become overwhelmed with credit payments. If you want to become debt free, there are a few things you **MUST** do.

1. Don't let debt break your back.
If you have more debt than you can manage, now is the time to get help. Before you consider drastic steps like bankruptcy, try the Consumer Credit Counseling Service, which is listed in your local yellow pages. For a small fee, you can get help negotiating a payment plan that will keep your creditors at bay.

2. Get a handle on your spending.
If you are like most people, you fritter away thousands of dollars without much thought to what you are buying. By making a budget, you can find out where the money goes -- and start directing more of the wasted dollars to a savings account that will be available instead of using credit.

3. Dump one at a time.
There are three ways to eliminate debt methodically - the highest balance, the highest interest rate or the lowest balance. Eliminating the highest interest saves you the most money, but eliminating the smallest balance shows results faster. You can decide which way works best for you.

4. Don't fall into the minimum trap.
If you just pay the minimum on credit-card bills, it will take you 20 years or more to pay them off. That means you'll pay more than five times the actual debt in interest. Ouch.

5. Watch where you borrow.
It's convenient to borrow against your 401(k) or your home to pay off high-rate debt. But that can be dangerous. You could lose your home, or fall short of your investing goals at retirement.

6. Some debt is good.
Borrowing for a home, college or a car makes good sense. Just don't borrow more than you can afford to pay back.

7. Some debt is bad.
Don't borrow for things that you consume quickly, such as clothes, meals, vacations. There's no quicker way to fall into debt limbo. Instead, put aside some cash each month for these items so you can pay the bill in full.

8. Expect the unexpected.
Build a cash cushion that you can get at quickly in case of an emergency. If you don't have such a cushion, a broken furnace or other calamity will wreck your budget and push you into a seat on the ship of credit-card slaves.

You CAN be debt free!

The Facts About Claiming Dependents

If you have children, shouldn't it be obvious how to claim dependents on your tax returns? Divorce and adoption are two factors that complicate this process. These facts describe the five tests that a taxpayer must pass to claim someone as a dependent on his income tax return:

- Support test
- Gross income test
- Citizenship test
- Joint return test
- Member of household or relationship test

Taxpayers who are divorced or are parents of adopted children will find this tax tip especially helpful.

Support test
A taxpayer must provide more than 50 percent of the support for the person they intend to claim. Support includes expenditures on food, clothing, lodging, education, medical expenses and other necessities. If two or more individuals, including yourself, provide more than 50 percent of the total support, you can claim the exemption if you contribute more than 10 percent of total support. In this case, all those who share support with you must agree that you can claim the exemption and must sign away the exemption on Form 2120, the *Multiple Support Declaration*. You must file this form with your tax return.

Gross income test
A dependent must have less than a certain amount of income. This amount increases annually. For 1999, the dependent's gross income must be less than $2,750. There is one major exception to this rule. Gross income may exceed $2,750 if a dependent is:

- A child younger than age 19 at the end of the tax year; or
- A full-time student during at least five months of the year and younger than age 24 at the end of the tax year

Citizenship test
A dependent must be a:

- United States citizen, resident or national; or
- Resident of Canada or Mexico

However, your adopted child doesn't have to be a citizen to be claimed as a dependent. As long as the child lives with you and is a member of your household for the entire year, you can claim him.

Joint return test
You can't claim a dependency exemption for someone who files a joint tax return. The only exception is for someone who files a joint return for the sole purpose of claiming a refund of income tax withholding and who wouldn't be required to file a return if he filed separately from his spouse.

Member of household or relationship test
A dependent must live in your household for the entire year, unless he is closely related to you. How does the IRS define "closely related"? The following are considered close relationships:

- A child includes stepchild, adopted child, or a child living with you while adoption is pending.
- A grandchild also includes great-grandchild.
- A sibling includes step-brothers, stepsisters, half-brothers, and half-sisters.
- A parent can be a stepfather or stepmother.
- Your great-grandparent can be included as a grandparent.
- Your in-laws can be brother- or sister-in-law, son- or daughter-in-law, father- or mother-in-law.
- Others include uncle, aunt, niece or nephew.

Special rules for children of divorced parents
Special rules apply when determining the dependency status for minor children of divorced or separated parents. The general rule for children of divorce assigns the dependent exemption to the parent who has custody of the child for the greater part of the year. Support provided by each parent is irrelevant. The most recent divorce decree or separation agreement determines custody. What happens if there is joint physical custody or if the decree or agreement doesn't establish custody? The parent who has actual physical custody of the child for the greater portion of the year is deemed to have custody. There is an exception. If the custodial parent consents to give up the exemption, the noncustodial parent can claim the child.

Conclusion
Being a parent doesn't always clarify the process involved for claiming dependents on your tax returns. If you have any questions, please feel free to call Wright Total Tax at 426-1164.

Ask Mr. Wright

Q. Dear Mr. Wright, my wife and I are going through a separation and split up last October. We both work and our children go to day care. How should we file?

I am assuming that when you say split up, that you mean one of you moved out of the joint household you had previously.

Since it hasn't been a full six months, you can file one of two ways : Married filing Jointly or Married Filing Separately. Most tax practitioners will prepare your taxes both ways then leave it up to you which way you want to file.

I can say that since you are both employed and have child care expenses, most likely the best way is married filing jointly. And here's why:

The standard deduction for married filing jointly is larger than married filing separately ($7,200 vs. $3,600). This factor doesn't matter if you itemize.

Secondly, you cannot claim the child care credit if you file married filing separately. This credit is more beneficial than the standard deduction because it gives you a direct tax credit.

Both of these facts may well play into your decision, however, it is still up to you which way you want to file.

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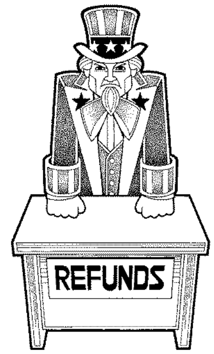
GET YOUR TAXES DONE THE WRIGHT WAY!

Are You Ready for THIS Season?



Now that the holiday season is over, many of us aren't eagerly looking forward to the other season - - Tax Season! Many of us do look forward to our refund checks but aren't quite sure of what it takes and what we can do to maximize our return and lower our tax liability. There are many legal ways to lower your tax bill but the keys are knowledge and application.
Wright Total Tax has that knowledge and assists you in optimizing your tax situation so you get the largest refund possible.
Through the use of taxes, investing and insurance, Wright Total Tax provides you the information and tools to lower your tax bill and improve your financial situation. We give you the personal service, thoroughness and confidentiality that you want all at an affordable price.

Remember that we strive to "Keep Your Money Yours!"

Upcoming Seminar!! Just in Time for Tax Season!

A personal thank you to everyone who attended our last seminar, Understanding Mutual Funds. Since we are on a roll, why stop now? So we are holding another seminar on Understanding Taxes on Monday, January 31 at 7:00 pm. Everyone is invited. Hey, you can even tell a few friends to join you when you come. It will be located at 1305 Hope Mills Road.

We will cover every area of taxes that you need to know to help you create your tax situation for next year and beyond.

Just Come On In!

Do you want professional tax advice?

Would you like to start investing for your children's education or your retirement?

Would you like to start an insurance plan that protects your family's finances in the event of your inability to do so?

Do you just want information or advice on taxes, investments, insurance or real estate?

Feel free to just come on in or call us!

At Wright Total Tax, we know how hard you work for your money, so we make your money work hard for you!

THOUGHT OF THE DAY

By perseverance, the snail reached the ark.