

# 2010

## *Member of the Year* **MICHAEL MERGEN**



CALIFORNIA SOCIETY OF TAX CONSULTANTS

REPORTER

In the last three years Mike has “virtually” been in two places at the same time! While president and then past president of the Orange County chapter, he organized, obtained speakers and handled the administrative responsibilities that are required in the formation of a new chapter. His hard work paid off in July when he was able to secure the required signatures in order to charter CSTC’s 16th chapter. The Society Board approved the new South Orange County chapter at the September 20, 2010 meeting and the chapter was given their charter plaque on September 28, 2010.



Since becoming a member in 1998 he has been very generous with the time he has devoted to CSTC. Currently a dual member of both Orange County and South Orange chapters, he serves on both boards, as well as taking on the task of Society Chair for the Tax Bridge 2011 seminar.

He has also been “training” in audio visual needs for the Summer Symposium and Tax Bridge education programs as well as on the Website and Chapter Development committees at the Society level.

Mike’s actions reflect his dedication to CSTC. He is the “**Man of the Year**”! Thank you, Mike, for your commitment to the California Society of Tax Consultants.

### 2011Officers:

President, Linda J. Morlang  
1st VP, Sharon Hardy  
2nd VP, Cindy Price  
Secretary, David Eastis  
Treasurer, Barbara Marx Cleary  
Congratulations! Thank you for your dedication.

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## **PRESIDENT'S MESSAGE**



Dear Fellow Members,

Thank you for the opportunity to serve as your President for 2011 and 2012. I look forward to serving you and meeting with as many of you as possible. I believe that membership in our organization has been one of the most important decisions I have made for my business. I know that the more I give to CSTC the more I get back and that's why I'm asking each of you to go the extra mile and "care enough to share" CSTC with your fellow professionals.

As you know, Membership has always been near and dear to my heart and so I ask that you do your share and work with me to reach that goal of 2012 by 2012. We only have one year left! We are a team and we need to pull together.

As we are knee deep in tax returns, I am making this short and sweet. I wish each and every one of you a prosperous and healthy tax season.

Linda J. Morlang  
President, 2011

### **New Estate and Gift Tax Rules**

The tax bill passed by Congress on December 17th included a number of changes to the estate and gift tax laws. Here is a brief rundown of the provisions so you can answer your clients' questions.

- The exclusion amount for estate tax is now \$5 million.
- The top estate tax rate is 35%.
- The lifetime gift tax exemption has been increased from \$1 million to \$5 million.
- The step-up in basis of inherited assets has been restored.
- The unused portion of an estate tax exemption can now be transferred to the surviving spouse.
- And, best of all, these provisions all expire at the end of 2012!



## ABOUT THE REPORTER

### 2011 SOCIETY OFFICERS

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 1ST VP.....Sharon Hardy  
 2ND VP.....Cindy Price  
 SECRETARY.....David Eastis  
 TREASURER.....Barbara Cleary  
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### HOW TO CONTACT THE SOCIETY

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**[www.cstcsociety.org](http://www.cstcsociety.org)**

### ADD YOUR LINK TO CSTC'S WEB SITE

Call 714-750-CSTC (2782)

### 2011 CALENDAR OF EVENTS

5/13-14	Society Board Meeting
6/5-8	Summer Symposium, Las Vegas, Nevada
6/9	Leadership Workshop, Las Vegas, Nevada
7/18	Society Board Meeting
9/19	Society Board Meeting
11/7	Society Board Meeting
12/1-2	Tax Bridge, Anaheim, CA

## A 3.8 Percent "Sales Tax" on Your Home?

**Q:** Does the new health care law impose a 3.8 percent tax on profits from selling your home?

**A:** No, with very few exceptions. The first \$250,000 in profit from the sale of a personal residence won't be taxed, or the first \$500,000 in the case of a married couple. The tax falls on relatively few — those with high incomes from other sources.

We've been flooded with queries about this one ever since the health care bill became law. At the last minute, Democratic lawmakers decided on a new 3.8 percent tax on the net investment income of high-income persons. But the claim that this would amount to a \$15,200 tax on the sale of a typical \$400,000 home is utterly false.

The truth is that only a tiny percentage of home sellers will pay the tax. First of all, only those with incomes over \$200,000 a year (\$250,000 for married couples filing jointly) will be subject to it. And even for those who have such high incomes, the tax still won't apply to the first \$250,000 on profits from the sale of a personal residence — or to the first \$500,000 in the case of a married couple selling their home.

We can understand how this misconception got started. The law itself is couched in highly technical language that only a qualified tax expert can fully grasp. (This provision begins on [page 33 of the reconciliation bill](#) that was passed and signed into law.) And it does say the tax falls on "net gain ... attributable to the disposition of property." That would include the sale of a home. But the bill also says the tax falls only on that portion of any gain that is "taken into account in computing taxable income" under the existing tax code. And the fact is, the first \$250,000 in profit on the sale of a primary residence (or \$500,000 in the case of a married couple) is excluded from taxable income already. (That exclusion doesn't apply to vacation homes or rental properties.)

The Joint Committee on Taxation, the group of nonpartisan tax experts that Congress relies on to analyze tax proposals, underscores this in [a footnote on page 135 of its report](#) on the bill. The note states: "Gross income does not include ... excluded gain from the sale of a principal residence."

Continued on page 4



**Continued from page 3.**

And just to be sure, we checked with William Ahern, director of policy and communications for the non-profit, pro-business [Tax Foundation](#). "Some home sales would see a tax increase under this bill," Ahern told us, "but it would have to be a second home or a principal residence generating [a gain of] more than \$250,000 (\$500,000 for a couple)."

So there you have it. The sort of people who would have to pay the tax might include, for example:

- A single executive making \$210,000 a year who sells his \$300,000 ski condo for a \$50,000 profit. His tax on the sale of that vacation home would amount to \$1,900, in addition to the capital gains tax he would have paid anyway.
- An "empty nester" couple with combined income of over \$250,000 a year who sell their \$1 million primary residence to move to smaller quarters. If they cleared \$600,000 on the sale, they would be taxed on \$100,000 of the profit (the amount over the half-million-dollar exclusion). Their health care tax on the sale would amount to \$3,800 over and above the usual capital gains levy.

• However, a typical home sale would not incur any tax. In March, for example, half of all existing homes sold for \$170,700 or less, [according to the National Association of Realtors](#). Obviously, none of those sales could possibly generate a \$250,000 profit, and so none would be subject to the tax.

Thus, for the vast majority, the 3.8 percent tax won't apply. The Tax Foundation, in [a report released April 15](#), said the new tax on investment income (including real estate) "will hit approximately the top-earning two percent of families" when it takes effect in 2013.

**Footnote:** Some of the chain e-mails that claim ordinary home sales will be taxed include a copy of [an article written by Paul Guppy](#), a policy analyst with the conservative Washington Policy Institute (that's Washington state, not Washington, D.C.). The article appeared March 28 as an op-ed in the Spokane, Wash., *Spokesman-Review*, and Guppy claimed that "[m]iddle-income people must pay the full tax even if they are 'rich' for only one day." That brought a quick rebuttal from Sara Orrange, the government affairs director of the local Realtors association. She wrote [a letter to the newspaper](#) calling Guppy's article "inaccurate" and saying, "Most people who sell their homes will not be impacted by these new regulations. This is not a new tax on every seller, and that correction needs to be made." In a news article the next day, business reporter Bert Caldwell confirmed that [only "a very few" home sellers would pay](#) the 3.8 percent tax.

The Internal Revenue Service [says](#) that to qualify for the \$250,000/\$500,000 exclusion, a seller must have owned the home and lived there as the seller's "main home" for at least two years out of the five years prior to the sale.

- *Brooks Jackson*

### Sources

Joint Committee on Taxation. "[Technical Explanation of the Revenue Provisions of the 'Reconciliation Act of 2010,' As Amended, In Combination with the 'Patient Protection and Affordable Care Act.'](#)" 21 Mar 2010.

Ahern, William. E-mail to FactCheck.org, 22 Apr 2010. National Association of Realtors. "[Existing-Home Sales Rise on Home Buyer Tax Credit and Favorable Market Conditions.](#)" Press release. 22 Apr 2010.

Fleenor, Patrick and Gerald Prante. "[Health Care Reform: How Much Does It Redistribute Income?](#)" The Tax Foundation. 15 Apr 2010. Guppy, Paul. "[Health Law's Heavy Impact.](#)" *Spokesman-Review*. 28 Mar 2010.

Orrange, Sara. "[Home sales tax clarified.](#)" Letter. *Spokesman-Review*. 1 Apr 2010.



## 25th SUMMER TAX SYMPOSIUM

It was June 30, July 1 & 2, 1986 at the Imperial Palace in Las Vegas, NV when and where it all started. **Sandy Rosenthal** of the San Diego chapter initiated and chaired the event that has become the primary education for many tax professionals. **George Waters**, who has since past, **Karen DeVaney, Mike & Cheryl Baker, Alice Moriarty, MaryAnn Teders, Karen Joyner** and **Nicole LeBrun**, all Symposium Chairs who devoted their time and talent in making the Summer Tax Symposium a success all these years. A big **THANK YOU** to each of you.

This 25th Symposium will be held at the Orleans Hotel & Casino in Las Vegas, Nevada on June 5, 6, 7 & 8, 2011. Don't miss the Early Bird registration and sign up by **March 15**, to save up to \$125. Nicole LeBrun, Chair, has gone all out in preparing this event for you. She has some of your all time favorite speakers returning for this 25th Anniversary: Mike Karll, Dave Gorsich, Carol Thompson, Beanna Whitlock, LG Brooks, Jerry Pusateri, Ruth Godfrey, Frank Acuna, David Eastis, Linda Beckett, Rodney Coutts, Eugene Ostermiller, Philip Fiegler, Gary Quackenbush, Jeanne Martin and Claudia Stanley. An all star lineup! Beanna Whitlock is in charge of the "Speakers Entertainment" portion for our Sunday Night Social. The theme this year will be a '50's Sock Hop. There will be a Chapter "Dance Off" competition and our previous Symposium Chairs will be part of the Judges Panel for the "Dance Off". So plan on getting to Vegas early on Sunday, June 5, and plan on staying an extra day for the **Leadership Workshop** that will follow the next day on Thursday, June 9. Be sure to make your hotel reservations directly with the Orleans Hotel & Casino (1-800-675-3267) **before May 6, 2011** and use the group code of **1CSTC06** to receive the room rate of \$40 for single or double.

If you have any questions call the Society Office at 714-750-2782. You can email (cstcsociety@sbcglobal.net), fax (714-750-2722), or mail in your registration.

See registration on page 7.

## PASS THE WORD

**WE HAVE 4 OR 2 HOURS CALIFORNIA & 2 HOURS ETHICS CE ON LINE**

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Non-Member	\$515	\$565	\$640
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### SESSION SELECTION

**Day 1** 8:00 - 9:45 (Select 1, 2, 3 or A) 10:00 - 2:50 (Select 4, 5, 6 or A) 3:20 - 5:00 (Select 7, 8, 9 or A) 5:10 - 6:00 (Session 10 General)  
**Day 2** 8:00 - 9:45 (Select 11, 12, 13 or B) 10:00 - 2:50 (Select 14, 15, 16 or B) 3:20 - 5:00 (Select 17, 18, 19 or B) Note: If A or B selected, it is an ALL DAY session - If C selected, it is a 4-hour session - Surcharge - Limited Enrollment  
**Day 3** 8:00 - 9:45 (Select 20, 21, 22 or C) 10:00 - 11:40 (Session 23, 24, 25 or C) 1:10 - 2:50 (Session 26 General) 3:20 - 5:00 (Session 27 General)

**Mail Completed Registration Form To:**  
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