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**Client Newsletter Summer 2007**

**To Avoid Identity Theft:**

1. The next time you order checks have only your initials (instead of your first name) and last name printed on them. If someone takes your checkbook, they will not know if you sign your checks with just your initials or your first name, but your bank will know how you sign your checks.
2. Do not sign the back of your credit cards. Instead, write "PHOTO ID REQUIRED" on the signature space.
3. When you write checks to pay your credit card bills, **DO NOT** write the complete account number on your check. Instead, write only the last four digits of your account number on the check. The credit card company knows the rest of your account number, and anyone who might handle your check as it passes through all the check processing channels won't have access to it.
4. Put your work phone # on your checks instead of your home number. If you have a P.O. Box, use that instead of your home address. If you don't have a P.O. Box, use your work address. **NEVER** have your Social Security Number printed on your checks. You can hand write it if necessary, but if it's pre-printed, anyone has access to it.
5. Place the contents of your wallet on a photocopy machine. Copy both sides of each license, credit card, etc. You will know what you had in your wallet and all of the account numbers and phone numbers to call if you need to cancel the cards. Keep the photocopy in a safe place. Carry a photocopy of your passport when you travel in case the original is lost or stolen.
6. Do **NOT** put your Social Security Number and credit card numbers on your computer or hand held electronic device. The computer can be stolen, and then you will also be a possible victim of identity theft.
7. The Internal Revenue Service and Franchise Tax Board **NEVER** send you email requesting your personal information. If you receive any, this is "phishing", and a response puts you at risk of identity theft.
8. Unless you know who is on the other end of an email message, do not provide requested information.
9. Do not leave electronic equipment (computers, cell phones, hand held devices,) or printed material in your car. If someone steals your car or breaks in, your personal information can be stolen subjecting you to identity theft.

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DAVID M. HELLMAN is a Certified Specialist in Taxation Law by the State Bar of California Board of Legal Specialization, a Certified Specialist in Estate Planning, Trust and Probate Law by the State Bar of California Board of Legal Specialization, a Member of the California and Connecticut Bars, and a California Certified Public Accountant

In order to cancel your credit cards IMMEDIATELY if your wallet is stolen, keep that information readily available, and don't wait to make the calls.

File a police report in the town where your information is stolen. This action proves to the credit card providers that you were diligent, and this is a first step toward an investigation if there ever is one.

Take time to call the 3 national credit-reporting organizations IMMEDIATELY to place a fraud alert on your name and Social Security Number. The alert means that any company checking your credit knows your information was stolen, and they have to contact you by phone to authorize new credit.

The numbers to call are:

Equifax: 1(800) 525-6285  
Experian: 1(888) 397-3742  
Trans Union: 1(800) 680-7289  
Social Security: 1(800) 269-0271

Share this information with as many people as you can to help protect all of us from identity theft. Use the power of information as your weapon to defend against these thieves.

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### **Medical Identity Theft On The Rise**

Stolen identities are being used to pay for medical procedures and in the process, those persons' identities are being intermingled with the original medical records of the persons whose identities were stolen.

Correcting a billing statement is fairly easily accomplished if you are over-billed for a hospital or outpatient procedure, but correcting a medical chart is much more complicated. Hazardous situations can occur if blood types are referenced when a procedure is performed for an identity thief using his or her personal information, and then the real person has a procedure and the blood type is confused with that of the identity thief.

To reduce your risk of medical identity theft you can do the following:

Monitor the explanation of benefits for services you did not receive;

Request a history of disclosures, or a list of people or organizations to which your medical information has been sent;

Request a copy of your medical files from each provider; and

Monitor your credit reports for unpaid medical bills or debts from collection agencies.

*\*\*Paraphrased from an article "Medical ID theft On the Rise Across the Nation" in the January 2007 issue of The National Notary.*

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### **Charitable Contribution Deductions**

On August 17, 2006, the president signed the Pension Protection Act of 2006. While you may be aware of the bill, you are probably not aware that it has made some important changes affecting your charitable

contribution deductions.

Effective immediately, the law does not allow a deduction for clothing and household items "unless such clothing or household item is in good used condition or better." The law does not define "good condition," so you will need to be a little more discriminating with the items you are donating and you may want to take pictures of large items in case you later need to verify their condition. Household items include:

Furniture and furnishings, Electronics, Appliances, Linens.

Also, starting in 2007, you will no longer be able to deduct the small amounts given to Salvation Army bell ringers, cash put in the church collection basket, or other miscellaneous contributions that were not paid by check or acknowledged in writing by the charity. So, if you plan on deducting a contribution, make sure that you have documentation to support your contribution. Acceptable documentation includes a bank record, or a written communication from the donee showing the name of the donee organization, the date of the contribution, and the amount of the contribution.

Keep these changes in mind when you make future contributions, and call me if you have any questions.

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## **Use Tax Due On Internet And Out-Of-State Purchases**

If you purchase merchandise from a vendor located outside the state or the country, you may owe California use tax. This includes purchases you make over the Internet. When your taxes are prepared, you will be asked if you made purchases outside of California because you can pay the use tax with your income tax return, or with Board of Equalization Form BOE-401-DS.

Use tax is like sales tax but you pay it directly to the state, rather than to the retailer. The rule of thumb is: You owe use tax if what you bought would have been subject to sales tax if you purchased it at a local store and you did not pay California sales tax. You generally owe California use tax when you use, store, or consume – in California – tangible personal property purchased from an out-of-state vendor. If the vendor does not collect the California tax on the purchase, the purchaser must pay the tax directly to the state. If you don't report and pay your use tax in a timely manner, such as with your income tax return, the state will assess penalties and interest. Use tax is intended to protect California merchants who otherwise would be at a competitive disadvantage when out of state vendors make sales to California customers without charging tax. Use tax also helps protect California tax revenue sources from the current decline in sales tax revenue.

What is and is not subject to sales and use tax can be complicated. There are numerous exceptions to the rules, but here are some common ways that people make out-of-state purchases that are subject to use tax:

- Internet purchases
- Foreign purchases
- Shopping channel purchases
- Mail order purchases

These are some common examples of items subject to use tax:

- Clothing
- CDs and books
- Computers, cameras and other electronic equipment
- Toys
- Household items such as small appliances
- Makeup
- Over-the-counter medications

- Collectibles
- Jewelry
- Sports equipment
- Computer programs shipped on a disc

Items that are exempt from sales tax are also exempt from use tax. Here are a few examples:

- Music and other online media purchases for your iPod or MP3 player and transferred directly over the Internet.
- Software that is transferred over the Internet and nothing is mailed to you.
- Prescription Drugs
- Newspapers, magazines and other periodicals
- Most food items
- Purchases where the Seller added California sales tax to your purchase

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### Year-End 2007 Tax Changes

There are many tax changes that are happening at the end of this year! Some tax deductions will go away and some new benefits will kick in. There are enough changes that it is important that you do some early planning to cut your overall tax bill. Here are some planning ideas you may want to consider. Get advice before implementing any of them.

- Roth rollover: For middle and high-income people, there is benefit to contributing to a nondeductible IRA. In 2010, everyone – no matter what their income – can convert an IRA to a Roth IRA. If you don't have an IRA now, look at the benefit of setting one up. If you do, also plan on how to maximize tax benefits on the future conversion.
- Contribution of IRA to charity: if you are 70½ you can cut your taxes by making your annual charitable pledge directly from your IRA to a charity. Although it's a simple process, there are some opportunities and traps to watch out for.
- Deduction phaseouts: The government restricts certain deductions based on income. The threshold amounts are slated to drop in 2008, so consider postponing income from 2007 to 2008.
- Rate changes: The capital gain rate will drop to 0% for low-income taxpayers. If you are helping out a family member or friend financially, consider gifting them appreciated stock. They can then sell the stock and pay no tax. There are some potential restrictions that will likely happen before the end of the year so you will need to plan to avoid any retroactive law changes. Also be aware that the "kiddie tax" now applies to children under 18.
- Sales tax vs. state income tax: For 2007, you will have a choice to deduct sales tax or state income tax. This suggests that an auto purchase might be more tax-beneficial in 2007 than 2008.
- Medicare premium surcharge: The surcharge for your 2009 premium will be based on your 2007 income. There are things you can do to reduce the Medicare surcharge if your income is over \$80,000 (single) or \$160,000 (married filing a joint return). That surcharge can be double the base premium. Multiply that times two if both spouses have Medicare part B.
- Other changes: There are also changes in charitable contribution rules, education credits and benefits, and AMT issues that provide planning opportunities.

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