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Dear Clients:

It's hard to believe that Spring is almost here. For those of us who don't live or spend winter in a warm climate, the longer days and milder temperatures can't come soon enough.

With Spring comes tax time. Hopefully your paperwork is organized and you have been in touch with your accountant or tax preparer. Remember that you still have until the tax filing deadline to contribute to your IRA, Roth IRA or other select retirement vehicles for 2006.

Lastly, the growth of our firm is greatly a result of the referrals we receive from all of you-our clients. If you know of anyone who may benefit from our services, we would be pleased to meet with them.

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## The Home Office Tax Deduction

If you're self-employed and conduct business out of your home, the Internal Revenue Service (IRS) may allow you to take advantage of the home office tax deduction.

Before you deluge your accountant with receipts for expensive office furniture and electricity, however, proceed cautiously. There are specific requirements that must be met in order to claim this, and they can be confusing for many people.

If the technical requirements, described below, are met - you may be able to deduct a percentage of real estate taxes, mortgage, interest, rent, utilities, insurance, depreciation, painting and repairs. This deduction is available to either homeowners or renters. Furthermore, the IRS defines a "home" as a house, condo, apartment unit or even a boat. Self-employed individuals typically find it easier to qualify for this deduction. The IRS has established two requirements that must be satisfied beforehand, however:

1. You must use that part of your home regularly and exclusively for business purposes.
2. The business part of your home, including a detached garage or guesthouse, must be either your principal place of business or the location where you meet with your clients or customers in the normal course of business.

### The Regular and Exclusive Use Requirement:

The regular use requirement is not clearly defined by the IRS. But, in general terms it means that you must use a designated part of your home for business purposes on a continuous basis. This requirement can likely be met by working from home a few hours each day or a couple of days a week. The exclusive use requirement strictly means that you use this designated portion of your home solely for business. Therefore, if you have a home office with a computer, using this computer to send personal emails would be a violation and would preclude qualification for the home office deduction.

The IRS does offer two exceptions to the exclusive use rule:

1. You operate a certified day-care facility from your home.
2. You use your home to store inventory or product.

### The Headquarters or Meeting Place Requirement:

If you operate out of more than one business location, including your home, you must determine whether your home is your principal place of business. A home will qualify as a principal place of business if you conduct administrative or management activities of your business solely from your home and no other fixed location. You must meet both of these provisions. Alternatively, employees who work at home may also be able to qualify for this deduction if they also satisfy the standards mentioned earlier for self-employed individuals. The twist for an employee, however, is that the use of a home office must be for an employer's convenience rather than the convenience of the employee.

### Next Steps if You Qualify:

Generally the amount you can deduct depends on the percentage of your home that is used for business. The deduction will be limited if your gross income from your business is less than your total business expenses. Employees must be able to itemize deductions using Schedule A. Self-employed individuals would report their deduction on Schedule C.

Finally, be prepared to demonstrate to the IRS that you qualify for the home office deduction. For example, take photographs of your office, have your business mail sent home, set up a phone line exclusively for business purposes, and log the time you spend working at home.

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## Insuring Your Home Business

If you run a business out of your home, you need to pay special attention to your insurance coverage. Fortunately, many insurance packages are designed specifically for small and mid-size businesses, making it easier for you to obtain the insurance protection you need.



### Homeowners policies

You may assume that because you have homeowners insurance, you have adequately protected your home business. Wrong! Standard homeowners policies include little or no coverage for home businesses. Policies typically cover business property on your premises only to a certain limit, usually \$2,500, and may limit coverage for business property away from your premises to only \$250. There's also typically no coverage for business liability, leaving you unprotected against potential liability claims from clients or others who use your products or services or who make deliveries to your home.

You may be able to add endorsements to your homeowners policy that raise your business property limits or add limited business liability protection. Keep in mind, though, that these types of endorsements are typically designed for very small businesses that have few visitors, so they may or may not be appropriate for your business.



### Home office policies

If you need more comprehensive coverage than a homeowners policy with endorsements can provide, look into purchasing a home office policy. These policies vary widely, but they generally provide business liability coverage, business interruption coverages, and increased limits for your business property, along with the traditional coverages found in homeowners policies. Policies generally cover lost income and continuing expenses for a certain time period (e.g., one year) in the event your home is damaged and you're unable to work. They usually cover loss of valuable papers and accounts receivable, while offering higher limits for equipment breakdown coverage and business property used off-premises than standard homeowners policies.

### Business owners policies

If you operate your business in multiple locations or you need broad protection, you may want to consider a business owners policy (BOP). A BOP is a type of commercial

insurance designed specifically for small or mid-sized businesses. Traditional BOPs provide comprehensive coverage for buildings, business property used on- and off-premises, and liability exposures. Also covered are computers and other business equipment, software, data, loss of income, continuing expenses, and professional liability for certain occupations. Some insurance companies even offer BOPs tailored to the needs of home business owners.

### Liability coverage

You may need more liability protection than is available through a home office or business owners policy. If so, consider purchasing an umbrella liability policy that provides increased liability limits beyond those found in separate policies. If you work in an occupation that is particularly vulnerable to professional liability (e.g., law, medicine, or day care), you may also need other types of liability protection, such as a separate professional liability policy, usually called malpractice coverage or errors and omissions coverage.

### Other insurance you may need

Although business insurance policies can provide comprehensive property and liability protection for your home business, they don't cover every risk. You may need other types of insurance as well, including commercial automobile, health, disability, and life insurance. If you have employees, your state will likely also require you to carry worker's compensation insurance.

### For more information

Your insurance agent or financial professional is the best source of information about the types of insurance you may need. He or she can help familiarize you with state insurance requirements, and recommend an insurance program to help protect your home business.

## Common Types of Trusts

Whether you're seeking to control how your assets are distributed after your death, avoid probate, plan for incapacity, minimize transfer taxes, or protect assets from potential creditors, trusts can help you accomplish many estate planning goals. Their power is in their versatility--many types of trusts exist, each designed for a specific purpose. Here are some brief descriptions of the most common types.

### Living trust

A living trust (also called an inter vivos trust) is a trust you create during your lifetime rather than after your death by the terms of your will (that type is called a testamentary trust). Living trusts are revocable--you keep control over the trust assets, and can change the trust or even dissolve it at any time. This type of trust is useful if you want assets to avoid probate and shield them from public scrutiny, and/or if you want to provide for someone else to manage your assets should you become incapacitated. Living trusts, however, will not minimize taxes or protect assets from creditors.

### Irrevocable trust

An irrevocable trust is one that, once created, you generally can't change or dissolve, and you must give up total control over the trust assets. But, irrevocable trusts can provide certain tax advantages and asset protection. The following are all irrevocable trusts designed to achieve particular objectives.

### Bypass trust

When a person leaves his or her entire estate to a surviving spouse, assets pass free from federal estate tax because of the marital deduction. When the surviving spouse dies, his or her estate passes free from estate tax to the extent of his or her lifetime exemption (currently \$2 million). If this is the case, a couple's combined taxable estates may be higher than need be because the lifetime exemption of the first spouse to die has not been used.

A bypass trust (also called a credit shelter trust) can solve this problem. The first spouse to die funds the trust with assets equal in value to the exemption amount. Those assets "bypass" the surviving spouse's estate (though the surviving spouse can receive all income and some principal), and pass to descendants estate tax free at the surviving spouse's death.

### QTIP trust

A QTIP (qualified terminable interest property) trust (also called a marital deduction trust) is, like the bypass trust, used by spouses to minimize estate taxes. It holds assets of the first spouse to die that are in excess of that spouse's lifetime exemption. Transfers to a proper QTIP are tax free under the marital deduction, even though assets do not pass outright to the surviving spouse. Trust assets are held for the surviving spouse's benefit, then pass to descendants as part of the surviving spouse's estate (and may be sheltered from estate tax by the surviving spouse's lifetime exemption). For maximum estate tax savings, a QTIP trust is often paired with a bypass trust. This is known as an A/B trust arrangement.

Because the first spouse to die names the ultimate beneficiaries, a QTIP is often used to provide for children of a previous marriage.

### Irrevocable life insurance trust (ILIT)

The proceeds of your life insurance policy will be subject to federal estate tax if you own the policy, or your estate receives the proceeds. Often, this asset pushes an estate over the exemption amount.

An ILIT, created to hold a life insurance policy and its proceeds, is a separate legal entity. Using an ILIT removes the proceeds from your estate because the trust entity owns the policy and is the named beneficiary of the proceeds.

### Charitable remainder trust

A charitable remainder trust allows you to give money or property to charity while continuing to receive income (fixed or variable) from the property for life or for a period of time up to 20 years. You and/or other beneficiaries receive distributions from the trust annually, and the charity receives the remaining assets when the trust ends. You get an immediate income tax deduction for the charitable interest (subject to the usual limitations), as well as gift and estate tax deductions. You also avoid capital gains tax on the donated assets.

### A word of caution

A trust is not a do-it-yourself arrangement. Trusts must be properly structured and carefully drafted to achieve the desired results. Be sure to consult an experienced estate planning attorney.

*Whether you're seeking to control how your assets are distributed after your death, avoid probate, plan for incapacity, minimize transfer taxes, or protect assets from potential creditors, trusts can help you accomplish many estate planning goals.*





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## Ask the Experts



### Is it too late to make an IRA contribution for 2006?

You can make an IRA contribution for 2006 at any time up until the due date for filing your federal income tax return for the year. For most people, this will be April 17, 2007. This deadline isn't affected by any extension you may receive to file your return. So, if you obtain an automatic six-month extension, you'll have additional time to file your tax return, but you won't have any additional time to make an IRA contribution.

If you do make a contribution in 2007 for 2006, make sure you tell your IRA trustee (or custodian) that the contribution is being made for the prior year. Otherwise, the trustee may assume that the contribution is for 2007 (the year in which it's received) and report it as such.

Also, before you make a contribution, be sure you're eligible. Remember that if you're covered by an employer retirement plan, you may not be able to deduct your contributions to a traditional IRA unless your income is within

certain limits. And you can't contribute to a traditional IRA at all after you reach age 70½. You can contribute to a Roth IRA at any age, but again only if your income falls within certain limits.

If you are eligible to make a deductible contribution to a traditional IRA, keep in mind that you can file your 2006 tax return claiming the deduction before you actually make your contribution. Just be sure you meet the April 17 contribution deadline.

You can contribute up to \$4,000 to an IRA (traditional, Roth, or combination of the two) for 2006 (\$5,000 if you were age 50 or older by the end of 2006). You may also be able to contribute up to \$4,000 to an IRA for 2006 in your spouse's name (\$5,000 if your spouse is age 50 or older), even if he or she had little or no taxable compensation for the year.

If you haven't yet made your IRA contribution for 2006, why not do it now?