

COLE, EVANS & PETERSON

CERTIFIED PUBLIC ACCOUNTANTS

FIFTH FLOOR TRAVIS PLACE
600 BLOCK TRAVIS STREET

SHREVEPORT, LOUISIANA 71101-3013

www.cepcpa.com

M. ALTON EVANS, JR.
PARTNER EMERITUS

AUSTIN G. ROBERTSON, JR., C.P.A.
OF COUNSEL

TELEPHONE (318) 222-8367
TELECOPIER (318) 425-4101

MAILING ADDRESS:
P. O. DRAWER 1768
SHREVEPORT, LOUISIANA 71166-1768

WILLIAM JEFFERSON COLE, C.P.A.
A. WILLIAM PETERSON, C.P.A.
CAROL T. BARNES, C.P.A.
C. WILLIAM GERARDY, JR., C.P.A.
BARRY S. SHIPP, C.P.A.
STEVEN W. HEDGEPEETH, C.P.A.
STEVEN R. BAYER, C.P.A.
GWENDOLYN H. HARJU, C.P.A.
TIMOTHY R. DURR, C.P.A.
BAILEY B. BAYNHAM, C.P.A.
ROBERT A. BUSBY, C.P.A.
ANNE-MARIE COLE, C.P.A.
TIMOTHY W. BORST, C.P.A.
ERIC D. SMITH, C.P.A.
MARY WELLS CARMODY, C.P.A.

JOHN A. CASKEY, C.P.A.
NINA G. GLORIOSO, C.P.A.
J. AMY HEMMINGS, C.P.A.
LINDA K. BIBLE, C.P.A.
KYLE S. DOBBINS, C.P.A.
MATTHEW R. HAHN, C.P.A.
FAYE D. CAMPBELL, C.P.A.
BRENDA B. GRIMM, C.P.A.
DILLON WRIGHT, C.P.A.
KATHRYN A. THAXTON, C.P.A.

JUNE 2009

THE REST OF THE STORY

As discussed in the accompanying *Alert*, federal tax law was changed by the "Stimulus Bill" signed by the President on February 17, 2009. The *Alert* article discusses the old law and makes clear that the Stimulus Act increased the dollar limitations on most residential energy credits from a \$500 lifetime cap to a new \$1,500 lifetime cap for 2009 and 2010. It does not, however, mention something much more interesting and significant to taxpayers and especially to Louisiana taxpayers. So as Paul Harvey famously said, here is "the rest of the story."

The February law changes did not just increase some federal tax credit limits, but rather removed the limits entirely for the tax credit of 30 percent for the cost of geothermal heat pumps, solar panels, solar water heaters, and small wind energy systems for new or existing homes, including rental residences. The 30 percent unlimited credit also applies to the cost of fuel cells for principal residences.

As you might recall, a refundable Louisiana income tax credit equal to 50 percent of the first \$25,000 of the cost of solar and wind energy systems for residential property has been available since January 1, 2008. The unlimited federal credit has also become significant at 30 percent. As a result, Louisiana taxpayers can now receive an 80 percent income tax credit on the first \$25,000 expended for such systems and 30 percent on the amounts above \$25,000.

For example, a solar energy system purchased for \$25,000 results in a Louisiana tax credit of \$12,500 and a federal tax credit of \$7,500 (total credits of \$20,000), resulting in a net-of-credit cost of \$5,000. The federal tax credit will generally be realized in the year in which the equipment is acquired. The Louisiana credit will be fully utilized in the year that the equipment is installed and placed in service by offsetting the owner's Louisiana income tax liability up to \$12,500. Any credit in excess of the Louisiana tax liability is refundable to the owner.

The Louisiana Public Service Commission has established net metering rules that require the utility companies to provide a net meter to customers to measure the flow of electricity accurately in both directions. The excess solar energy generated by a home system can be sold back to the utility company. A detailed analysis of the cost effectiveness of solar energy generation by homeowners in Louisiana remains complex. Nonetheless, the largest cost is the acquisition and installation of the equipment, and the credits have significantly reduced the cost for residential systems.

The Louisiana credit does not have a scheduled expiration date. The federal credit expires at December 31, 2016. If you are interested in a renewable energy system, you might want to consider it for 2009. We will be glad to discuss these tax credits with you.

ACHIEVING FINANCIAL SECURITY COPING WITH PREMATURE DEATH

Most of the factors that determine our success in achieving financial security are within our control or, at least, our strong influence – that is, we develop our earning skills, set our standard of living, determine our savings plan, and make wise (hopefully) decisions. One threat to achieving financial security, premature death, is largely beyond our control. For most young people, premature death is an unacceptable financial risk and must be handled by insurance. A few thoughts on insuring against the financial risk of premature death follow.

Life insurance provides the investment capital for income replacement in the event of the premature death of an income earner. Generally, you should buy enough life insurance so that when the death benefit is added to other investment assets, the total available investment assets will produce 80 percent of your present net-of-tax income. Young people in doubt about the appropriate amount of insurance might want to "over insure" since the cost of pure insurance (no investment features) is generally very low, and future insurability and inflation are uncertain.

Term insurance (annual or yearly renewable) that is guaranteed renewable to age 65 or even to age 100 is available. "Cash value" insurance policies combine investment contracts with insurance coverage. A complete understanding and independent analysis of cash value policies is required to determine the actual cost of the life insurance coverage and is essential to a rational choice between such policies and term insurance and other investments.

How life insurance is owned might have an effect on the federal estate tax liability in the event of the insured's death. The proceeds of life insurance policies are generally included in the federal estate tax base of the insured if the insured had any control over the policy or if the insured paid the premiums. If the children of the insured own the policy and pay the premiums, then the proceeds are generally not included in the estate of the decedent. If a trust for the family is the owner and the beneficiary of the policy, then the proceeds are generally not included in the estate of the decedent. If the decedent's spouse is the policy beneficiary, the marital deduction will offset the

inclusion of the proceeds in computing the federal estate tax, resulting in no federal estate tax on the death of the first of the couple.

In the past, the after-tax cost of buying life insurance for a shareholder of a closely-held corporation that accumulated income at low brackets could be significantly reduced if the corporation owned the policy and paid the premiums with income taxed at the lower corporate brackets, rather than if the shareholder paid the premiums with income taxed at the old top individual rate of 50 percent or more. With the lower individual rates and the availability of ownership by family members other than the decedent, the after-tax (income and death) cost is generally lower if life insurance policies are owned personally rather than through a corporation.

Shareholders should consider transferring existing life insurance policies from corporate to individual ownership. The individual will, of course, pay the annual premiums after the transfer. If the policy is ordinary life or other cash value insurance, the policy ownership should be transferred by sale to the insured shareholder at its fair market value, which is generally the cash surrender value. However, such transfers by sale might have adverse income tax consequences to the corporation. Accordingly, we suggest that such transactions be thoroughly reviewed prior to their implementation.

We generally suggest that retirement plans not own life insurance policies since this ownership uses a portion of the tax-favored investment funds for a current expense (the premiums). The cost of life insurance is best paid with funds that are not available for favorable tax-deferred investments.

Generally, there are no income tax consequences to the receipt of life insurance death benefits other than the possible corporate alternative minimum tax and possible taxation due to certain transfers of life insurance policies.

Decisions related to life insurance can be very significant in achieving financial security and can yield unexpected results or unintended tax consequences. We will be happy to discuss your individual planning with you.