



**KEATS, CONNELLY**  
*and Associates, Inc.*

*Bridging the Border to  
Your Financial Future*

## ***December 2007 E-Update***

### **KCA in the News**

#### **Register Now for our Upcoming Workshops!**

Experienced professionals from Keats, Connelly & Associates, Inc. (KCA) conduct workshops in cross-border currency exchange, U.S. immigration after 9/11/01, and estate planning. We will provide you with strategies and information in an attempt to get the best of the Canadian and U.S. tax systems, take advantage of currency exchange rates, receive your Canadian RRSPs tax-free or nearly tax-free in the U.S., find investments exempt from U.S. income taxes and withholding, and maximize Medicare benefits, just to name a few. General question and answer sessions will also be held to address your specific concerns.

New this year is registration on the website. We do not accept credit cards over the Internet; however, after you have registered, you will receive a call from us to arrange payment for the workshop. The workshops fill up quickly, so don't delay.

#### Cross-Border Living Workshops

|           |   |
|-----------|---|
| 1/23/2008 | Hyatt Grand Champions Resort<br><b>Indian Wells, CA</b> |
| 1/29/2008 | Marriott<br><b>West Palm Beach, FL</b>                  |
| 1/31/2008 | The Ritz-Carlton<br><b>Naples, FL</b>                   |
| 2/7/2008  | The Ritz-Carlton<br><b>Phoenix, AZ</b>                  |

Workshop registration begins at 7:30 a.m.; the workshop itself begins at 8:00 a.m. Continental breakfast and lunch are provided and a complimentary copy of Mr. Keats' book, *The Border Guide*, is also included. The admission price is \$100 per single attendee and \$150 per married couple. We accept VISA, AMEX, and MasterCard. Please call **1-800-678-5007** to register.

#### **Employee Recognitions:**

- **Bob Keats, President** – KCA, has recently been interviewed and written up in several publications that run between October and December 2007. These include this week's *Toronto Star* article on the tax debate pertaining to moving from Canada to the U.S.; the *Arizona Republic* newspaper business cover story; *IMPACT Magazine* on corporate

volunteerism; *Smartmoney.com* on work-life balance for busy business owners; *Phoenix Business Journal* for a profile piece; and *ForeverYoung News.com* on Canadians investing in the U.S.

- **Dale Walters, CEO – KCA**, was recognized as a *2008 Top Advisor* by *Reuters AdvicePoint*. He was also interviewed with Bob on a profile of KCA in *IMPACT Magazine* to likely publish as a feature article in the January 2008 issue. Other interviews were given with *Wealth Manager Magazine*, *Launch Magazine*, *AdvisorMax.com* and *Accounting Crossing* online newsletter.
- **John Rice**, our newly promoted Chief Investment Officer, recently passed the Chartered Financial Analyst (CFA) exam and has officially received the charter.
- **Peter Eickelberg** has written or been quoted in a few articles that have been published in the *Arizona Republic* newspaper (Travel & Explore section), *American Venture Magazine*, *Registered Rep – National Financial Newsletter*; and *Lowe's For Pros*.
- **Brad Flecke** was interviewed by the *Phoenix Business Journal* for the Law Focus section.
- **Barry Rabinowitz** was interviewed for an article on *Growing Wealth Management*. The article will run in this month's issues of the *Phoenix Business Journal*. He has an additional article in the December *Financial Advisor Magazine*. Barry is a featured speaker at the ETF Conference scheduled in January 2008 at the PGA Resort in Palm Beach, Florida.

### \*\*\* ARTICLES OF INTEREST \*\*\*

#### **IRS Tougher Penalties Affect Your Tax Return Documentation: Notice from Wayne Tibbetts –Director of Tax Services:**

Nearly everyone has been advised of the tougher stance the IRS is taking on charitable contributions; which is why we have been telling everyone that we will only take those contributions that are evidenced by a receipt.

What few people know is that one of the recent changes has been the addition of new preparer penalties for errors on taxpayer returns. These penalties start at the greater of \$1,000 or half of the fees charged for the tax preparation. Now, while the IRS says that it doesn't intend that preparers 'audit' their clients, they still will hold us accountable for misstatements on the returns even if it was a representation by the client. The new standard for positions on a return are what the IRS terms "more likely than not" to be sustained. This means that any item on a return has to have more than a 50% chance that the IRS would agree with how it was reported.

These penalties can even be applied in the case of typographical or other innocent errors. So, while we always endeavor to complete as accurate a return as possible, we are only human and none of us are perfect. Now tax preparers run the risk of being penalized for their imperfections.

What does all of this mean for clients? It will probably mean that more time will be expended in the overall preparation in order to ensure accuracy. This will slow down the process and increase the cost to our clients.

It will also mean that we will be asking quite a few more questions and that we will need backup for every item from charitable donations—to quarterly estimates—to property taxes—to cost

basis of investments sold to—well, just about everything. And we will need this support in our files. This may get frustrating at times, but it is necessary in order to protect you, as well as ourselves.

So if we ask for copies of checks to prove that your estimated tax payments were made, or if we don't take all of the charitable contributions you listed because you did not give us a copy of the receipts, try to remember that we don't have a choice here. The IRS is effectively converting the tax preparer from an advocate for you to being an employee of the IRS.

Please be patient with us as we adjust to the new rules. If it gets too annoying, I would suggest writing a letter or placing a phone call to your Representatives in Congress. If they hear from enough angry constituents, they sometimes fix the problem.

One of the changes you will notice on your tax returns is who is actually preparing and signing them. In order to segregate the costs of tax preparation, all tax work will be done by Cross Border Tax & Accounting, LLC, a wholly-owned subsidiary of KCA. This will not result in any changes on the processing of your information, but will allow us to identify the portion of your annual fees attributable to tax preparation work.

### **Canadians and the Windfall Elimination Provision (WEP) Update: by Brad Flecke**

Retired Canadians with U.S. work histories may qualify for Social Security benefits, in addition to the Canadian Pension Plan (CPP) and Old Age System (OAS) benefits. Social Security benefits are often less than expected—by as much as one-third, courtesy of the WEP. For those who are new to the fiasco, “the WEP” is the Windfall Elimination Provision of The Social Security Act. The WEP was enacted to prevent double-dipping by U.S. government employees who already receive federal employee retirement benefits. Times change and budgets tighten. A few years ago some government examiners began applying the WEP to limit the monthly benefit received by a broader range of people—including Canadian retirees who claim both Social Security and CPP benefits (note: OAS is not an earnings-based pension program, so it is not an issue here).

What was the practice of some examiners, recently has become Social Security Administration (SSA) official policy. The SSA now asks broad questions about foreign government pension benefits: whether the applicant is currently receiving foreign benefits *or expects to receive* them at some future date. SSA also asks detailed questions about U.S. and foreign work history—so that SSA does not have to rely on the applicant's own opinion about future foreign benefits.

Those lucky Canadians who receive Social Security benefits with no WEP reduction are also at risk. Remember that CPP benefits are reported on U.S. tax returns and, more than ever, the Internal Revenue Service is sharing tax information with SSA. Eventually, SSA may recalculate and reduce the monthly benefit according to the WEP formula. To add insult, SSA may dramatically reduce the benefit for months or years to recover any "overpayment".

[Financial Planning Note: It no longer makes sense to delay filing for CPP to avoid the WEP. The decision about when to apply for Social Security and CPP should be based on other factors such as life expectancy and the higher monthly benefit one would receive by waiting to apply.]

To the Canadians who have paid into the U.S. Social Security for years, the WEP benefit reduction may feel like robbery. It is. Just because SSA applies the WEP to Canadians does not

make it right or legal. The WEP is supposed to apply to retired U.S. federal employees only. The WEP is not supposed to apply to benefits under a bi-national Social Security treaty (a *totalization* agreement). Also, if the treaty were properly applied, many Canadians would have the 30+ years of combined Canadian and U.S. employment that would exempt them from the WEP.

For years, Keats Connelly has been fighting this misapplication of the law, on a case-by-case basis, by helping individual clients through the SSA appeals process. Last year, Keats Connelly began working with a law firm to fight the SSA's misapplication of the statute in federal court. We have nothing to report from the courts yet. The wheels of justice turn slowly.

### **Canadian Passport Applications for U.S. Residents: by David Levine**

There has been some confusion regarding the new procedures for applying for a Canadian passport. Application forms can be downloaded from the internet at the Passport Canada website, <http://www.pptc.gc.ca/>, or can be picked up at any Canadian Consulate Office.

There is currently a new form: the Adult General Passport Application for Canadians 16 Years of Age or Over (in Canada and the U.S.).

The Guarantor must be a Canadian citizen who currently holds a Canadian passport, must have known the applicant for two years, and must be available to Passport Canada for verification. The Guarantor must also complete the "Declaration of Guarantor" section of the application and must be able to write "I certify this to be a true likeness of (the applicant)" on one of the photos, and if applicable, sign and date a copy of the documents to support your identity. The Guarantor can be related to the applicant as long as they meet the requirements noted above.

The older form titled, Adult General Passport Application for Canadians 16 Years of Age or Over (Living in the U.S.) may still be used if the applicant does not know a Canadian citizen that can act as Guarantor. In that case, the "old rules" regarding Guarantors will apply. The Guarantor must still have known the applicant for two years and be either a U.S. or Canadian citizen and be accessible to Passport Canada for verification. In addition, the Guarantor must be one of the following:

- Chiropractor
- Dentist
- Judge
- Lawyer
- Magistrate
- Medical doctor
- Notary public (notarial seal must appear on the application form)
- Pharmacist
- Police officer
- Signing officer of a bank or trust company, or of a financial institution that offers the full range of banking services (cash withdrawals, deposits and savings)
- Veterinarian

The primary reason for rejection of passport applications is an incorrect photo. The photos must meet Passport Canada requirements. The photos are different than U.S. passport photos; therefore, you cannot submit a U.S. passport photo with your application. Canadian consular offices have the names of photographers in their region that can properly take a Canadian passport photo to meet the stringent Passport Canada requirements.

The completed passport application, along with the fee, photos (2) and supporting documentation, should be sent into the Passport office located on the application form. The fee is C\$97 for Canadians living in the U.S. Child passport fees are C\$37 for children aged 3 to 15 years old and C\$22 for children under 2 years of age. The processing times usually take about nine weeks, so plan well in advance of your current passport expiring. On an emergency basis, a Canadian Consular office can assist Canadian citizens obtain a Canadian passport.

### **Help with Medicare Part D Choices: by Claudia Freeman**

The annual open enrollment period for Medicare Part D Prescription Drug Plan (PDP) coverage will soon be closing. If you are a current Medicare participant, you must enroll or re-enroll by December 31 for coverage starting on January 1, 2008. If you are not yet a Medicare beneficiary but will turn 65 or become eligible for Medicare outside of the annual enrollment period (November 15 through December 31), you have a seven month window in which to enroll in the current year's plan in order to avoid a possible increase in your premium. This increase, sometimes referred to as the "life-time premium penalty" may be equal to one percent of the national monthly average premium for each full month you do not have coverage.

As a rough guide, anyone who spends over \$68 per month (\$810/year) on prescription drugs could save money by enrolling in one of the 1300 Part D Prescription Drug Plans available across America. To assist in your choice of a plan, Medicare has introduced a new online resource for the 2007 enrollment period.

A visit to the "Search Tools" section of the [www.medicare.gov](http://www.medicare.gov) home page will reveal a link entitled "Compare Medicare Prescription Drug Plans". Here you can conduct a personalized search for the best plan in your area to suit your particular needs. Taking the time to enter your medications will serve to narrow your choices and give you the best results. Your search results can then be sorted further by company name, estimated annual cost, premiums, deductibles, or gap coverage.

Once you've narrowed your choices by following the steps above, you may want to visit [www.medicare-partd.com](http://www.medicare-partd.com) to see how your finalists are rated. Clicking on the "Medicare Part D Finder" for your State will provide you with customer service ratings for each of the plans you are interested in. You will also find statistics on each plan's previous years' enrollment figures to help you determine the popularity of each plan. If you need help during your search, give us a call. We would be happy to help you find the plan that's right for you.

### **Safe Shopping Online: Summary by Kathy Bayer**

For online shoppers that want to avoid the shopping crowds and long lines, a [Microsoft.com](http://Microsoft.com) Security At Home article provides tips on their webpage to help prevent you from giving your money to cyberthieves.

### **Before you select a store:**

Legitimate companies don't send unsolicited e-mail messages asking for your password or login name, or your financial information, but scammers do. In fact, crooks often send e-mail messages that look like they're from legitimate companies. Delete these e-mail messages. Criminals are trying to collect your personal information to commit identity theft or other crimes. Sometimes, just clicking a link in a fraudulent e-mail message from an unfamiliar source could install spyware on your computer.

- **Shop with familiar online retailers** that you know by its brand or reputation on their secure website.
- **Do a background check** [on online retailers that you are not familiar with]. Look for a physical address (not a Post Office box), request a catalog by mail or call and talk to a company representative.
- **Explore the web site for third-party seals of approval** such as the Better Business Bureau (BBB) or Truste. Click on the seals to make sure they link to the organization that created them. Some unscrupulous merchants put these logos into their design without permission, and they're less likely to get caught if they don't link back to the site. If you don't see these seals on the site, look in the privacy policy or "Terms & Conditions" which should be clearly posted on the site.
- **Find out what other shoppers have to say about an online store** on comparison sites such as Epinions or Bizrate. These sites have customer evaluations built into their design with smiley faces or stars. You can also type the company's name into a search engine to check for unfavorable reviews.
- **Review their shipping methods and policies** to determine what carriers they use, their shipping rates, and if they provide tracking and insurance. Also, look for information about the return policy. Some retailers give customers extra time so gifts can be returned or exchanged after the holidays; others give you as little as a week—if they accept returns at all. A number of retailers offer shorter return windows for certain products, and can charge "restocking" fees. Find out who covers the shipping cost—the customer or the merchant—on a return or exchange, or if your online purchase can be returned to a brick-and-mortar store. Also find out where they ship from—goods are sometimes sent from international locations, which require customs and extra time.

### **Before you enter your credit card number:**

Credit cards are usually a safe option because you can seek a credit from the issuer if the product isn't delivered or isn't what you ordered. Before you enter your credit card number, make sure the store you've chosen abides by the following rules.

- **The company should only require personal information that's necessary to complete the purchase.** You will probably enter your credit card number, address, and telephone number. Be wary if they ask for other information such as your Social Security number, bank account numbers, or your mother's maiden name.

**Note:** Some reputable companies might ask you to specify your interests by checking certain boxes. You should not be required to provide this information to complete the purchase.

- **Know what you're getting.** Read the seller's product description closely. Name-brand items with "too-good-to-be-true" prices could be counterfeit.
- **The Web site should use secure technology.** When you get to the screen where you enter your credit card number or other personal information, make sure that the Web address begins with https (for example, <https://www.tailspintoys.com/>) and check to see if a tiny locked padlock appears at the bottom right of the screen, as shown in the following image. If you use Internet Explorer 7, you get another layer of protection when you visit sites that use Extended Validation (EV) SSL Certificates. The address bar *turns green* to alert you that there is more information available about the Web site. The identity of the Web site owner is also displayed on the address bar. An EV SSL certificate not only helps ensure that the communication with a Web site secure, but also includes information about the owner of the Web site, which has been identified by the Certification Authority (CA) issuing the SSL Certificate.

#### **Update your Web browser:**

Internet Explorer 7 includes improved security features that make it easier to see which sites provide more secure data exchange, so you can shop and bank online with confidence. To learn more, see Internet Explorer 7: Help protect against identity theft and more. Visit the Internet Explorer Web site to download and install the browser.

#### **Trust your instincts:**

If a site matches all the criteria above, then there's a good chance that the site is both legitimate and reliable. But as with most things online or off, if you get a bad feeling about a store, skip it and shop somewhere else.

### **KCA Office News:**

#### **New KCA Employee:**

**Sally Taylor** – Staff Planner, Phoenix office

Sally is a Certified Public Accountant (CPA) and a Personal Financial Specialist (PFS). Since 1994, Sally has worked with prominent high net worth family offices in the Cleveland, Ohio area as a financial and accounting professional. Sally has completed her Certificate in Financial Planning with the College for Financial Planning and is pursuing a Master of Science in Financial Planning with the College for Financial Planning.

We welcome Sally to our team and we look forward to working together with her.

#### **KCA Staff Promotions/Changes:**

**John Rice** – Promotion to Chief Investment Officer

**Courtney Maguire** – Bookkeeper / Junior Tax Preparer

Congratulations to John and Courtney in their new roles and thank you for all that you do for KCA and CBTA!