



Your Taxes and Financial Matters

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Vacation home tax tips

Planning to rent out your vacation home? When it comes to taking advantage of the tax benefits, timing is an important factor.

Here are two points to remember:

The fourteen-day-or-ten-percent test.

The Internal Revenue Service applies this test to determine if you use your vacation home as a personal residence. If you stay in the home more than 14 days or 10% of the total days it's rented in a calendar year (whichever is greater), the general rule is you are using it as your home.

Why does it matter? Treating a vacation home as your personal residence affects your rental deductions. You would include all the rent you receive as income on your tax return. However, related expenses are generally limited to the amount of that income, meaning you cannot offset other income with a loss.

Note: Time spent in your vacation home by family members and certain others can count as personal use.

The less-than-fifteen exception.

Rent out your vacation home for less than 15 days during the taxable year, and the income is yours, tax-free. You do not even have to report it on your return. Just be aware that any expenses related to the rental are nondeductible.

Note: If you itemize, you can still deduct qualified mortgage interest and real estate taxes on your vacation home.

Other tax rules, such as passive activity and capital gains reporting, can also impact the decision to rent out your vacation home.

Is it a business or a hobby?

For federal tax purposes, the determination of "business" or "hobby" is a matter of deduction. If your new venture is considered a business, you can deduct losses against other income.

However, when the activity is classified as a hobby, the "hobby loss" rules limit the amount you can write off. Expenses you incur might be deductible only if you itemize or, they might even be nondeductible.

The distinction affects the amount of tax you owe. So how can you prove you are trying to run a money-making business despite several years of losses?

One test you are probably familiar with is the general rule of earning a profit in three of the past five years. If your business has more income than deductions in three of five consecutive taxable years, the Internal Revenue Service generally accepts that you have a profit motive. (The time frame is two years in seven for certain horse-related activities.)

Unable to meet that test?

Additional factors play a role as well. For instance, the Tax Court agreed that a volleyball consulting service with multiple loss years qualified as a business, in part because of a businesslike manner of operation. Among other items, the Court mentioned the maintenance of a separate bank account and accurate records as support for a profit motive.

Positive indicators of your profit-making intentions also include your expertise in the activity, the time and effort you put into your new business, and your success in other ventures.

If you have additional questions about the ideas mentioned here and/or the many other strategies available to you, they may be directed to me at 800-CPA-KROL (272-5765), or you may write to:

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Music News

By: **Marek Żebrowski and Krysta Close**

Polish musical heritage

When thinking of the history of Polish music and the most prominent composers, the name of Frederic Chopin inevitably comes to mind. Even during his life, he was the standard-bearer of Polish music. His nineteenth century colleagues are remembered less well, and perhaps not mentioned in the same breath. Encouraged to reflect on Polish music of the romantic era, we certainly remember Moniuszko and Wieniawski, and maybe even a few other names, like Zarębski, Karłowicz, Noskowski, and Żeleński, for example. Moving on to the first part of the twentieth century, we immediately think of Szymanowski and, following in his footsteps, Lutosławski, Penderecki and Górecki, undoubtedly the greatest composers of the modern era.

Going back to more ancient times, some of us may know that Polish music of the Renaissance and Baroque eras had a rich tradition and considerable repertoire of compositions penned by such masters as Wincenty from Kielce (ca. 1200 – ca. 1261), Tomasz from Sandomierz (d. 1259), Mikołaj from Radom (active in the first half of the 15th century), Waclaw from Szamotyły (ca. 1520 – ca. 1560), Tomasz Szadek (ca. 1550 – ca. 1611), Bartłomiej Pękiel (d. 1670), Wojciech Długoraj (1558-1619), Mikołaj Zieleński (ca. 1550 – ca. 1615), Tomasz Szadek (ca. 1550 – ca. 1611), Adam Jarzębski (ca. 1590 – ca. 1649), and Marcin Mielczewski (d. 1651).

Such a list proves beyond any doubt that Polish music has a rich and varied tradition, first centered in the ancient royal seat in Kraków, later expanding to Warsaw. Throughout many centuries, there has been a continuum of names great and small emanating out of Poland, some of them recognized internationally, others known only to local connoisseurs and historians. Over the past twenty years, the Polish Music Center at USC has been trying to preserve and highlight the accomplishments of not only the greatest and best-known Polish musicians, but also the lesser-known ones, for it is often a quirk of fate or some historical misfortune that prevented the latter from claiming their rightful place in the spotlight.

To this end, the Polish Music Center publishes the "Polish Music History Series" - a sequence of volumes that covers the life and works of not only Chopin, Szymanowski, and Bacewicz, but also of such captivating musicians as Józef Koffler, Maria Szymanowska, and Zygmunt Stojowski.

Józef Koffler (1896-1944) was a fascinating composer with close ties to the Viennese avant-garde movement. His music was widely performed throughout Europe in the 1930s, and for many years he was a professor of composition at the Lwów Music Conservatory. His promising career was cut short as he and his entire family perished in the Holocaust. *Józef Koffler: Compositional Style and Source Documents* by Maciej Gołąb is volume eight of our Polish Music History book series.

Maria Szymanowska (1872-1831) was a pioneering female composer and a touring virtuoso. A friend of Mickiewicz, Pushkin, and Goethe, she was a bright star in the salons of Warsaw, Paris, London, and St. Petersburg. Szymanowska's brilliant piano playing was admired throughout Europe and her compositions, including Mazurkas, Polonaises, and Etudes, were an important influence on the young Chopin. *Maria Szymanowska -Pianist and Composer* by Sławomir Dobrzański is the ninth volume in our book series.

Our latest publication - volume ten in the Polish Music History Series - is coming out later this summer. *Zygmunt Stojowski: Life and Music* by Joseph A. Herter is the first comprehensive biography of this long-neglected and undeservedly forgotten virtuoso pianist and composer. Stojowski was born in Poland in 1870 and studied at the Conservatoire Nationale in Paris. By 1891 he became a student of Paderewski,

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Investments

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The Home in Your Portfolio

Secure a mortgage without disrupting investment strategies.

Instead of borrowing from banks or hastily liquidating investments, affluent home buyers are discovering the merits of pledged-asset mortgages. These mortgages finance the entire purchase price of one or more residences by setting aside marketable securities as loan collateral. They are becoming a popular option, especially for high-net-worth clients who want their investment portfolios to remain intact.

Pledged-asset mortgages ideally suit buyers who expect the after-tax rate of return on their investments to exceed the after-tax interest rate on a mortgage. Moreover, because earned income tax rates adjust mortgage costs while lower capital-gains rates adjust investment returns, investors may enjoy a built-in tax advantage even if returns simply match the cost of the mortgage. Using a pledged-asset mortgage to avoid an ill-timed sale of securities (at year end, say) can lower a tax bill and sustain long-term objectives. By pledging the substantial amount of collateral required for these types of mortgages, borrowers also may secure advantageous interest rates and avoid hefty fees for private mortgage insurance, the penalty imposed on buyers who make down payments of less than 20 percent. These types of mortgages can be especially useful for parents seeking to help adult children purchase their first homes.

The Basics

Here's how the loans work. Instead of making a traditional cash down payment, an investor sets aside a portfolio that typically amounts to around 39 percent of the purchase price of the home. Thus, for a home priced at \$1 million, the investor would earmark a portfolio of stocks, bonds and CDs worth at least \$390,000 in an account maintained by the lender. The investor is free to buy and sell securities within the account, as long as they maintain a certain level of assets. The large value of the collateral compared to traditional down payments protects the lender against default, especially in the early years of the loan when the buyer has amassed little equity.

If the value of the portfolio rises, the investor can take out any amount above the initial collateral percentage required. Once the home owner has amassed equity equal to between 30 percent and 40 percent of the house's value, the portfolio is no longer needed as collateral and the owner can do anything he or she wants with it, including move it elsewhere.

Some Caveats

Pledged-asset mortgages do come with some special conditions that investors need to keep in mind. First of all, the person making the mortgage payments is borrowing 100 percent of the value of the house, not 80 percent as is often the case, and so can expect a higher monthly payment. There is also what's known as a suitability requirement, which means that a financial advisor needs to confirm that this alternative method of financing makes sense for a client in accordance with securities industry guidelines. These guidelines require that the

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P Visas

By: **Christopher A. Kerosky**

The P visa category is a special category of visas for individual or groups of athletes and performers. While the P category does not lead to permanent residence, it is useful for certain performers. This article will give a general introduction to P visas. You should see a qualified immigration attorney before proceeding with an P visa or any other type of application with Citizenship and Immigration Services ("CIS").

What is the P visa?

The P visa allows international athletes and entertainment groups to come to the U.S. and perform. It allows accompanying support personnel to enter the U.S., as well. Dependents of aliens in this category may also come to the U.S.

How does the P visa differ from an O visa?

P visas are better suited to group artists coming to the United States for shorter periods of time. Also, for many athletes, P visas are easier to obtain. The P-3 category is the first option for culturally unique artists.

What is the P-1 category?

These visas are granted to allow entry for performance at specific athletic competitions, individually or as part of a group or team, at an international level. CIS has resisted granting P-1 status to allow individuals to join U.S.-based groups. It also allows a foreign national who will perform with, or as an integral and essential part of the performance of an international group. The group may be as small as two performers, or may include a star performer and backup performers.

The group must show that at least 75% of the group's members have been established and performing together regularly for a period of a least one year. It must also provide a statement from the petitioner listing each member of the group and the exact date for which each member has been employed on a regular basis by the group. In addition, the group must provide evidence that the group has been internationally recognized in the discipline for a sustained and substantial period of time.

What is the P-2 category?

This classification is for a foreign national who will perform as an artist or entertainer, individually or as part of a group, or perform as an integral part of the performance of such a group, and who seeks to perform under a "reciprocal exchange program." These programs involve organizations in the United States and overseas that provide for the temporary exchange of entertainers, groups, and individual artists.

What is the P-3 category?

This category is for an artist or entertainer who is coming either individually or as part of a group to perform, teach, or coach in a program that is culturally unique. Examples would include commercial programs such as singers from Mexico or India performing in their language.

Who is considered essential support personnel?

Personnel coming to the U.S. with the principal artist or athlete may also receive P visas. You must show that the support personnel cannot be found in the United States and that all support staff are "essential" to the performance. Typically, a "consultation" from a union is required to show why U.S. union members could not perform the job.

How long can I stay on a P visa?

CIS may grant an initial P-1 petitions for individual athletes for up to five years. P-1s for athletic teams or entertainment groups may be valid for the time needed to complete the competition, event, or performance, not more than one year. This

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