

LOW-COST TACTICS FOR REDUCING YOUR HEATING BILLS

It could be much worse — you could be living in Minnesota, for example — but let's face it: Florida can get chilly in the winter months. High home-heating bills wallop many a household budget at this time of year. Give these free or low-cost tips a try:

1 Layer, layer, layer. Don a sweater or bundle up in a blanket and see whether that helps. If your feet are cold, your whole body will feel cold, so make a point of wearing socks around the house in the winter.

2 Adjust your thermostat. You're not likely to notice a big difference if you turn it down just a few degrees, a move that can reduce your heating bill by 5 to 10 percent. In Florida, try setting your thermostat at 68 to 70 degrees during the day and 60 to 65 degrees when you're not home or when you're sleeping.

3 Invest in a programmable thermostat. They cost between \$30 and \$100, but that's money you're sure to make back over the course of a year because your heating bills will go down. A programmable thermostat would make it possible for you to follow the advice in Tip #2 without having to remember to do anything.

4 Do you have a ceiling fan? Check to see whether it has a reverse-direction feature. You can use it to circulate the warm air trapped near the ceiling and make that whole room feel warmer.

5 Your windows make a big difference. By keeping your windows covered when it's dark outside, you'll minimize heat loss and keep cold air at bay. This is especially important if you have older windows. Be sure to let in the light during the day-time, though. Rays of sun will help heat your home.

6 Check your water heater's setting. Try turning the thermostat on your water heater down to 120 degrees.

7 Stay on top of maintenance. Electric and oil heaters should get professional attention at least once a year, and gas heaters should receive a checkup every other year. Also, remember to check the filters in your heating system and make sure they're clean and clear. Dirty filters lead to higher heating costs.

8 Check the exterior of your heating unit. Avoid stacking anything against the heat pump or draping anything over it. Hose the outside unit down to clear it of dirt, leaves and grass clippings. If your indoor unit has excess water around it, see whether the condensate drain and pan are blocked.

9 Wander through your home with a candle. Hold the flame near windows, doors and light fixtures and look for smoke moving in a horizontal direction. If you see it, that means you've spotted an air leak, and it probably means heat is escaping your home easily. Install some low-cost caulking or weather-stripping or add some insulating material.

10 Seek out help if you need it. Low-income households may qualify for assistance with their heating and cooling bills. To determine your eligibility, visit www.floridacommunitydevelopment.org/liheap and follow the links to find local contact information for your area.

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Sources: U.S. Energy Department's Office of Energy Efficiency and Renewable Energy (www.eere.energy.gov/consumer/); SmartMoney magazine (www.smartmoney.com/); Progress Energy (www.savethewatts.com/).

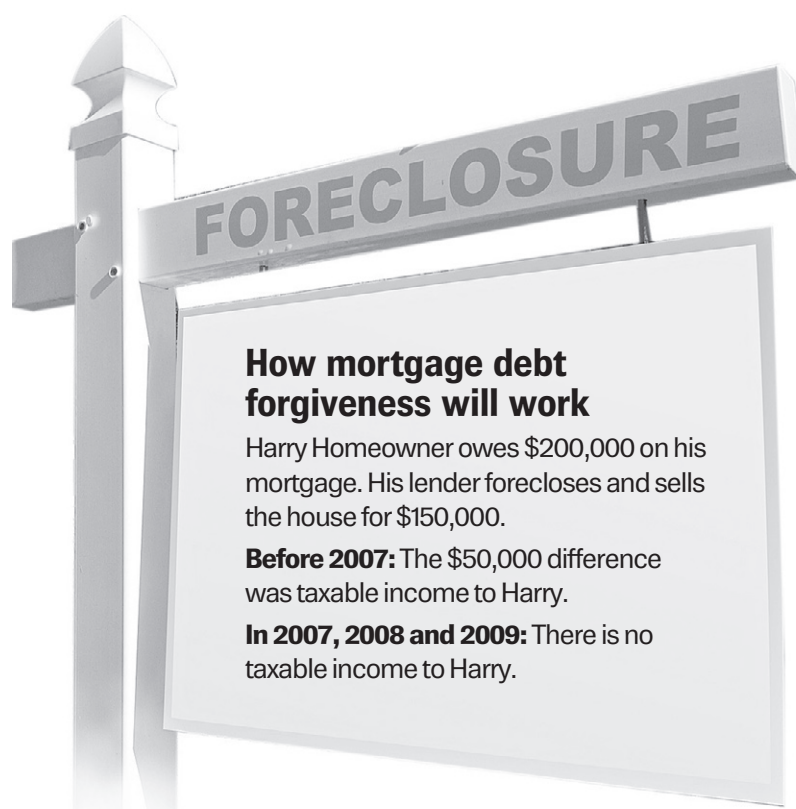
FINANCE TIP | Helen Huntley, personal finance editor

If you'll need financial help for college, fill out the FAFSA (Free Application for Federal Student Aid) as soon as 2007 income tax returns are completed for student and parents. Applying early improves the odds you'll end up with more grants in place of loans.

PERSONAL FINANCE

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How mortgage debt forgiveness will work

Harry Homeowner owes \$200,000 on his mortgage. His lender forecloses and sells the house for \$150,000.

Before 2007: The \$50,000 difference was taxable income to Harry.

In 2007, 2008 and 2009: There is no taxable income to Harry.

Law erases penalty in debt forgiveness

Homeowners whose mortgage lenders allow them to walk away from their debt got a big break from the new Tax Increase Prevention Act just passed by Congress. Under the old law, debt forgiveness was considered taxable income in many cases — pretty painful stuff when the reason you couldn't pay your mortgage was because you didn't have the cash.

Now forgiveness of debt or resetting of terms will not be taxable if the debt was taken on to buy, build or substantially improve your primary residence. A cashout refinancing is not eligible to the extent that it exceeds the original mortgage amount.

"This is much needed," said Scott Stamatakis, an owner of Unity One, a Tampa real estate company that specializes in "short sales," deals in which desperate homeowners sell property for less than what they owe on the mortgages to short circuit foreclosure proceedings. For the deal to close, the lender has to agree to accept the buyer's bid as payment for the mortgage. These situations have become more common as real estate prices have dropped.

"It's almost an insult for a person to be in a financial bind such as foreclosure and then, when it's over, not only did they lose the house but there's an extra \$50,000 to \$100,000 income they have to report. It's like being kicked when you're down."

Stamatakis said lenders typically have written off the remaining debt rather than chasing the borrower for the deficiency. The result was taxable income for borrowers unless they could show they were insolvent at the time. But if



HELEN HUNTLEY
Personal Finance Editor

Take your time filing

It will be at least a month before the IRS can accept returns with any of these forms:

- **Form 8863** education credits
- **Form 5695** residential energy credits
- **Form 8396** mortgage interest credit
- **Schedule 2, Form 1040A** child and dependent care expenses

they had a positive net worth (what they owned was worth more than what they owed), they were out of luck.

The law also will benefit people who stay in their homes under "workout" arrangements in which lenders agree to change the mortgage's terms to make them more favorable to the borrower. The Bush administration's plan for freezing the rates on certain adjustable rate mortgages is one example. If the law had not changed, the deals would produce taxable income.

The break for besieged homeowners is probably the most overlooked piece of good news in the latest tax bill. All the attention has been focused on the law's extension of AMT (alternative minimum tax) exemptions. Basically that means if you didn't have to pay the AMT last year,

you probably won't this year either.

The bad news about the tax bill is that the AMT fix could mean a delay in your tax refund even if you aren't an AMT filer. The AMT rules are so convoluted that changing them required changes to a dozen tax forms, which in turn require extensive reprogramming of IRS computer systems.

Ironically, the work related to the actual alternative minimum tax form (Form 6251) has been completed. However, the IRS doesn't expect to be finished with work related to several other forms until Feb. 11. That means you can't file before then if your return includes education credits (Form 8863), residential energy credits (Form 5695), mortgage interest credits (Form 8396) or the 1040A form for child and dependent care expenses (Schedule 2).

If you do your own tax return, it will be very important that you update your software or get the revised version of paper forms (available at www.irs.gov) before filing. The packages being mailed out to taxpayers include the earlier versions of the forms.

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Two other items in the tax bill will affect certain homeowners:

- The deduction for mortgage insurance premiums has been extended. It applies to mortgages taken out after Dec. 31, 2006.
- Widows and widowers can get a \$500,000 exclusion of capital gains on the sale of a home for up to two years after the death of a spouse. After that, the \$250,000 exclusion for single taxpayers will apply.

Money questions | Compiled by Helen Huntley

Job security drives saving plans

You asked

As I reviewed my savings strategy for 2008, I felt that I should limit my exposure to the stock market. I am 49 years old, single and make about \$155,000 a year. I have about \$100,000 in high-yield savings and money market funds and about \$150,000 in equity index funds. I plan to pay off my mortgage (\$57,000) this year and I have no other debt. My pension at age 62 will be over \$5,000 per month, and Social Security about \$2,000, if it is still around. Should I max out my deferred-compensation plan or should I put less in stocks and more towards fixed saving vehicles?

What are the odds that you will keep your current job until age 62 and earn that great pension? If your job and your pension are secure, you should be fine regardless of your asset allocation, assuming you don't become disabled. If your job and/or pension are not secure, your

Next week's question

What's your financial resolution for the new year?

TO ASK A QUESTION, make a comment or answer the Money Question of Week, e-mail hhuntley@sptimes.com or write Helen Huntley, P.O. Box 1121, St. Petersburg, FL 33731. Visit her MoneyTalk blog (blogs.tampabay.com/money/) for more money information.

retirement savings are low for person of your income and age.

A pension can be considered a substitute for fixed-income investments, allowing you to take more risk and hold a larger percentage of your portfolio in equities. However, you shouldn't take risks that cause you to lose

sleep at night. Striking the right balance can be difficult. Because you have substantial income and 13 years until retirement, you are in a great position to benefit from professional investment advice. One source for referrals is the National Association of Personal Financial Advisors (www.napfa.org).

Using the deferred-compensation program makes sense because of your high tax bracket, assuming you have acceptable investment options. For savings outside that program, tax-exempt bonds would be an option to consider.

Even though I use the standard deduction on my tax return, am I able to offset any capital gains with margin interest paid to my broker?

No. Investment interest is deducted on line 14 of Schedule A, which is the list of itemized deductions. If you don't itemize, you don't get it.

A note for those who itemize: Investment interest is deduct-

ible only up to the amount of net investment income you report. You can elect to count net capital gains or qualified dividends as part of your net investment income.

However, that reduces the value of the deduction, since qualified dividends and capital gains would be taxed at reduced rates (5 or 15 percent in 2007).

I remember hearing on TV or reading in the paper that there is a site to receive a free credit report annually. Would you happen to know what it is?

Checking your credit report is a great way to start off the new year. Go to www.annualcreditreport.com or call toll-free 1-877-322-8228. You can get a free report once a year from each of the three primary credit bureaus.

When you get it, check it for accuracy. Look for accounts you never opened and addresses where you never lived, both possible signs of identity theft.

How to retain financial resolve

About half of all Americans make New Year's resolutions. A lot of them promise to whip their finances into shape by paying down credit card debt or upping their savings contributions.

But statistics show that only about a quarter of us stick with our resolutions for more than a week or two. It's not going to be easy, but it's not nearly as hard as you think.



JEAN CHATZKY
Money Magazine

LEARN FROM YOUR MISTAKES. Before you move forward, you have to look back, especially if you spent the bulk of 2007 feeling strapped for cash. If you didn't have the foresight to track your spending at some point during the last year, you can get a general idea of where your money went by looking at your bank and credit card statements.

"One of the important things when looking back is to be able to classify which expenses are fixed and which are variable," says Sabrina Lowell, a financial planner with Mosaic Financial Partners in San Francisco.

Fixed expenses are nonnegotiable; things like your mortgage, insurance and utilities. Variable expenses are just that, and that's the area where most people, if they work on it, are able to find some wiggle room. If you're seeing a lot of, say, restaurants on your credit card statement, go ahead and add up the charges. You may think that the odd \$40 meal out doesn't add up to much, but you'll be surprised when you calculate the cost over a few months' time.

MAKE CHOICES. I enjoy going to restaurants, and much like a diet, if you completely deprive yourself of the things you love, a splurge will undeniably come along and ruin your hard work. The idea is to allow yourself some discretionary money, after the bills are paid and you've made contributions to savings, to spend however you choose.

So you can go to dinner or a movie, buy a new shirt or go to happy hour. Once you've identified your priorities, set a few boundaries to keep yourself in line, advises Lowell.

PUT EXTRA MONEY TO WORK. It's bonus time in a lot of offices, and the sudden influx of money can really send your good habits for a loop. But when your income increases, whether from a bonus, raise or a tax return, the best thing you can do is pretend it didn't.

"When you get a bonus, put it into savings. When you get a raise, bump up your 401(k) contribution. If you pay yourself first, you're going to reach your savings goals," says Mark Stinson, a financial planner at Baltimore-Washington Financial Advisors.

BOOST YOUR EARNINGS. It's relatively easy to spend less than you make if you earn a decent living. But if the review of your credit and bank statements turned up little to no discretionary spending and you still can't get ahead, there's a good chance you just don't make enough money.

Your income needs to at least cover your fixed expenses, plus any curve balls that may come your way. If it doesn't, you need to look into finding another job, upping your hours or moonlighting on the side.

HOLD YOURSELF ACCOUNTABLE. There are any number of programs that allow you to track your spending, so you won't have to sort through credit card statements and crumpled receipts next year. The most popular, of course, is Quicken, which is pretty simple to use and will automatically show you where your money is going. At about \$30 for the starter program, it's relatively inexpensive, too.