CLIENT*ADVISOR*

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tax&investment newsletter

June 2010

MONTGOMERY TAYLOR, CPA, CFP

Wisdom too often never comes, and so one ought not to reject it merely because it comes late. ***-Felix Frankfurter***

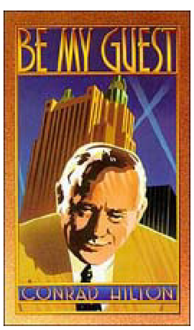
Monty's Opening Thoughts…

On February 11, 1919, he got his discharge from the Army at Camp Dix and took the first train for home. For three months after his return to Socorro, New Mexico, his life seemed completely without pattern or purpose. He was in fact restless, impatient, depressed for the only time he could remember. He had come home from the war in France unscathed only to find he was a displaced person.

He considered possibilities all across America, then decided that he would go to Cisco, Texas (for the booming oil industry) and try to buy a bank. He had accumulated $5,011 and that is all he had when he got off the train in Cisco. He walked to the first bank he saw and began negotiating to buy it. That turned out to be a dead-end.

He needed some sleep so he went down the street to a two-story red brick building with the sign, "Mobley Hotel." With a line out the door, he saw a cash-cow of an opportunity. . . and ended up buying the hotel. After putting together the financing and taking title to the hotel, he went to the telegraph office and sent the following wire to his mom:

"Frontier found. Water deep down here. Launched first ship in Cisco."



That night, with his hotel full up, he slept in the office and dreamed of a chain of Hilton hotels.

The life story of Conrad Hilton, *Be my Guest*, is one of my favorite books. It's a story of boom and bust, for a man and a nation. He says that the Great Depression tossed his life's work into a bottomless pit of debts, humiliations, and mortgages. But who remembers that now?

Conrad Hilton recounts his challenges and triumphs through more than seven decades of turbulence and prosperity. An inspiring personal memoir that resonates with faith, perseverance, compassion and phenomenal success.

This book would make an excellent gift for any young person graduating from high school or college. In addition, it would be an inspiring read for anyone feeling down or displaced. Conrad Hilton was one of the people you read about who came out of the Great Depression building and expanding his empire. We may be in a similar time in America's history, where financial devastation hits hard on the masses while certain others come out stronger and more financially secure.

America is a land of opportunity. I encourage you to find your frontier and launch your ship. Naturally, I'm trying to build my own empire, and am here to assist you in any way I can. Let's work together wherever possible… …want to borrow the Hilton book from me? Just stop by our offices.

-Monty

It's all in how you look at things….

"Starting a business in a recession is like vacationing in the off-season. It's less crowded and everything starts going on sale."
~ Eric Ryan, CEO, Method
(From zero to $71-million in sales, 2001-2006)

A stock market crash, collapse of a major bank, and a credit crisis led to The Panic of 1873 and a deep 6-year recession. 26-year old Russian immigrant Adolph Coors opened his brewery near Denver that year, against fierce competition and a bleak economy.
~ INC MAGAZINE 5/08

Inside This Issue

Staff News

Are you heading somewhere this summer? There are few words loved as much as "Summer Vacation", wherever, whatever, or whenever it is. The staff at Montgomery Taylor and Company hopes all of you will have an opportunity to spend a vacation with your loved ones this summer.

Monty, his wife, Terri, and his son, Joseph, are spending a week at Yosemite. They will stay in a cabin just outside of the park. The main theme of this trip will be <u>relaxation</u>! Of course, there will also be trips into the park for hiking and bicycling. Back at the cabin they plan to play games, put together a puzzle and read some good books.

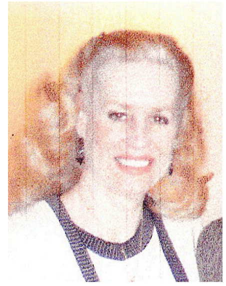
Sandy's summer plans include catching up with her eldest daughter, Laura, who is home for the summer after completing her freshman year of college in Chicago. Sandy and her younger daughter, Natalie, are looking forward to a weekend camping trip with friends. Sandy and her husband Mark will also celebrate their 26th wedding anniversary this month!

Barbara is vacationing on Maui. She is looking forward to relaxing on the beach with a good book, a cold drink, and lots of sunscreen. She also enjoys snorkeling and hiking to waterfalls on this lovely tropical island.

Phil and his wife, Margie, are leading a caravan of 23 Airstream trailers and motor homes on a tour of the Northwest. They will travel from Montana to California visiting National Parks and other scenic places. Phil loves to share these great places with folks from all over the country.

In addition to working in her garden and spending time with family and friends, **Mary-Ann** plans to do some local camping, work on some house projects, and possibly take a trip to Washington State to visit family.

Summer memories are just waiting to happen!



<u>Monty Shows Genuine Concern for Me</u>

Monty is really wonderful because he treats you like he knows you. I want somebody who knows me and understands my strengths and weaknesses. He is someone who is professional, and yet a friend. He has the ability to do your taxes and compare that with your financial situation and suggest ways to help you grow your money.

Monty is reassuring. When I think that I know the questions to ask about my financial issues, he can point out where I might do better if I thought of it another way. I always say, "Oh, I never would have thought of that." He explains things in a very knowledgeable way, and a way that I can understand.

Monty has been able to sort out a very complex financial mess that I was in because of investment fraud. I lost an enormous amount of money and he has helped me with the direction to take. He knows that at my age I can't start over again. He's been very, very cognizant of that and he knows how to direct me through the sharks and into clear water.

I have never had a financial advisor/accountant who did my taxes *and* was able to see the whole picture. I have never had a CPA who cared one way or the other about me, or who made me feel like I wasn't just another person. But Monty, he shows genuine concern for me and my relationship with him. I'm flabbergasted at the multitude of things he helps me with.

Monty's done a magnificent job for me.

~**Linda Trapanese**, RN, Santa Rosa

Why does European debt have Wall Street stressed? Check out Monty's blog: http://taxwiseadvisor.blogspot.com

Tax Strategy of the Month

"Here's an idea I think will save you money!"

IS A 1099 MIGRAINE AHEAD?

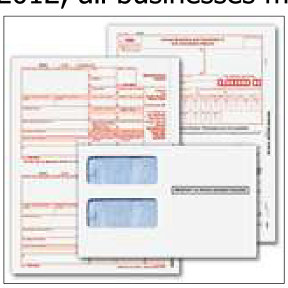
Section 9006 of the health care reform bill is going to give businesses headaches.

Picture this … it's a chilly morning in January 2012. You head out to your local office supply store to stock up on some essentials for your business – printer cartridges, copy paper, post-it notes…and a 500-pack of 1099 forms.

What? What was that last item again? 1099s? Yes, we may need them in bulk.

In 2012, you may need hundreds of 1099s. Why? Section 9006 of H.R. 3590 (the Patient Protection and Affordable Care Act, better known as the health care reform bill) has quietly ordered an enormous change in tax reporting.

Section 9006 says that starting on January 1, 2012, all businesses must issue 1099 tax forms



not only to freelancers and vendors, but also to any individual, business or corporation from which they purchase more than $600 in goods or services in a tax year.

Think about this for a moment. Let's say that in 2012, you spend a few days in Dallas on business and stay at a nice hotel. If the bill is more than $600, you'll have to give that hotel (and the IRS) a 1099 for your visit. Suppose you buy $900 worth of office furniture at a big-box retailer. Guess what: your company will have to give that retailer (and the IRS) a 1099.

If you rent office space, you'll need to send a 1099 to the IRS and your landlord. If your business buys a used truck worth more than $600, it will be time for a 1099. And so on.

Even if you pay more than $600 incrementally to a business for goods or services in 2012 (i.e., you buy wine and sparkling water for your café every week from the same warehouse), you will still have to issue that business and the IRS a 1099.

This means you'll have to have taxpayer ID numbers for every freelancer, vendor and business from whom you purchase tangible goods and services.

Why would the government do this? The goal is better reporting, plain and simple. The IRS estimates that $300 billion (yes, that's <u>billion</u>) in tax revenue goes down the drain annually as a consequence of unreported income.

If 1099s record the majority of payments a business makes, that means businesses and self-employed individuals will be less likely to understate revenue and overstate expenses. If you are looking for a silver lining in all this, here it is: in 2012, it will be easier to figure out precisely which business transactions need 1099s. If more than $600 is involved, the answer will be yes – that will be the only test.

Is anyone working to repeal this change? Yes. Rep. Dan Lungren (R-CA) has introduced the Small Business Paperwork Mandate Elimination Act to try and get rid of this demand. At some point in 2011, the IRS will have public hearings on the new law and release regulations pertaining to it. Expect a loud, lively protest.

Just in case. . . . We can help with the preparation of Form 1099s for your business. Or, we could provide you with some free aspirin.

Tax News You Can Use…

June 15, 2010, is the due date for making your 2nd installment of 2010 individual estimated tax. June 15 is also the due date for calendar-year corporations to make their 2nd quarter 2010 estimated tax payment.

Starting a business? Avoid these hiring mistakes

Challenges that merely annoy an established firm often capsize a start-up company. This is especially true in the area of staffing. When a big corporation makes a hiring mistake, the company suffers, but survives. Committed by a fledgling firm, the same mistake may spell disaster. After all, if your company employs only five people, one wrongly hired employee will make up a fifth of your work force. That person's incompetence or poor people skills can bludgeon the firm's bottom line.

Following are three of the most common hiring mistakes made by start-up companies. Avoid these blunders and you'll be well on your way to building a productive team.

❖ **Staffing the firm with friends and family**. While this strategy may work in some circumstances, hiring pals and relatives often spells trouble. For one thing, friends and family members often expect – even subconsciously – to be treated differently from other employees. Such a double standard, whether real or perceived, can hurt morale and productivity. As a general rule, hiring decisions should focus solely on the needs of the firm and applicant qualifications.

❖ **Trusting in a handshake.** Memories fade. Expectations fluctuate. As with other important aspects of your business, employee arrangements should be laid out in writing. This can be as simple as drafting employee offer letters that cover compensation, rights to intellectual property, and bonus arrangements. Employee handbooks are also a good way to spell out the responsibilities of the firm and its staff.

❖ **Bringing in a partner for the wrong reasons.** Sure, you might save money in the short term by selling a portion of your firm to a partner. But think long and hard about the downside risks. Do you really need to surrender a portion of your company – including control over important management decisions – to someone else? What will this partner contribute? Can you find other ways to fill gaps in your team? Remember, a bad partnership may end up in the business equivalent of divorce court. So choose wisely. For assistance with any of the issues facing your start-up business, give us a call.

Getting married changes your tax situation

If wedding bells are in your future, your tax situation will be changing also. For starters, your tax filing status will change. You will have the choice of filing a joint return with your spouse or filing a separate return as a married person.

Filing a joint return usually gives you the bigger tax savings. Both spouses' income and deductions for the entire year will be combined onto one return. Any deductions that are subject to limitations will be determined based on the combined income of both spouses.

In some cases, filing a separate return may save you taxes. A spouse who has high medical expenses or miscellaneous itemized deductions and low income, for example, might be better off filing a separate return. However, you may not claim certain credits and deductions if you file separate returns. Generally, only if you file a joint return can you claim the child and dependent care credit, the earned income credit, or education credits. Filing separate returns could affect the taxability of your social security benefits and the deductibility of rental losses.

The tax law has been changed to eliminate some of the additional tax that married couples once paid (called the "marriage penalty"). However, once you marry, you should review your federal income tax withholding at work. Fill out a new Form W-4 and indicate that you are married.

Several other limitations may come into play once you get married. For example, your IRA contribution may not be deductible if your spouse is covered by a retirement plan at work and your income exceeds certain limits.

Newlyweds can be faced with a surprise tax bill on April 15 unless they do advance planning. For details or planning guidance, give us a call.

Taxes and summer jobs

Is your child looking for a job this summer? If so, you both may have questions about taxes. Here are three common concerns.

☼ **Is a tax return required?** The answer depends on several factors, including the total amount of income received. For instance, if wages are the only source of income, your child can generally earn up to $5,700 during 2010 before a federal tax return is necessary. However, unless your child can claim an exemption from withholding, a return may be required even when wages earned are lower than the filing requirement. That's because filing is the only way to claim a refund of overpaid taxes. In addition, self-employment income, tips, interest, dividends, and stock sales can affect the filing requirement.

☼ **Can my child open an IRA?** Anyone under age 70½ who has earned income can contribute to a traditional IRA. There's no age restriction for Roth accounts, though the amount of the contribution phases out at higher income levels (starting at $105,000 for single individuals in 2010). The maximum standard contribution for 2010 is $5,000.

☼**Are there any tax breaks if my child works for me**? You can take a business tax deduction when you pay a reasonable wage for work your child performs in your business. If your business is a sole proprietorship or a partnership you and your spouse operate, and your child is under age 18, you don't have to pay social security, Medicare, or federal unemployment taxes. The child's wages are subject to income taxes.

If you have other questions about the tax implications of a summer job, give us a call.

College Strategist

Paying for College Without Going Broke

Getting Ready for College - What To Do This Summer

Making the transition from high school to college can be as challenging a task as deciding on a college. Here are some tips to help make that transition easier:

Earn money that you will need for college. If you worked last summer in a job that you liked, go back and see if you can work with them again this summer. Or try to find a different summer job that fits your career goals. An internship in your field of interest is a great way to get hands-on experience and can be very helpful when deciding on a college major.

Attend summer orientation at your college or university. Summer orientation will introduce you to the campus, faculty, staff, and all aspects of a college environment. You will interact with current students, make new friends, and learn about campus activities, student organizations, study skills centers, tutors and counselors. Some programs also welcome parents in an effort to inform them about campus life. Students often register for their first semester during orientation. In large, public universities, courses fill up quickly, so early registration is important.

Finalize your living arrangements. If you are undecided about your living arrangements, remember that your living environment will have an effect on your personal and educational growth. Usually, students who live on campus are more involved in both academic and social activities. Some schools require freshman to live on campus.

Secure your financing. If you are receiving financial aid from your school, or borrowing money with private loans, make sure all the necessary paperwork is turned in to ensure you will have the funds on time.

Learn to manage your finances. For many college freshmen, this is the first time you will have to manage your own finances. You will have to budget your money carefully and keep track of all your spending or you may run out of money before the end of the semester. Most students will have to open a checking account or get their first credit card.

College is a unique and unforgettable time in your life, so enjoy the experience! If you have any questions about paying for the upcoming costs of college, please give our office a call at 576-8700. We specialize in helping you fund college costs while maintaining other financial priorities.

Financial Strategy of the Month

"Here's an idea I think will save you money!"

Very Few People Know These Social Security Secrets. . .

But I'm going to let the cat out of the bag and tell you!

Retirees may be leaving lots of money on the table because they don't know about certain legitimate strategies. There are several key Social Security tactics that you should consider. And now is the time to lock in benefits, as many predict that the laws related to Social Security will change in the near future.

First, let me say, you need to start thinking about Social Security as an asset. Over your lifetime you've contributed to it—it's money in your bank. So, try to preserve it and use it intelligently.

The first strategy is called a Social Security "do-over." This occurs when an individual who began collecting Social Security benefits at 62 decides to defer any further payments until 70, which increases the payments at 70 by as much as $1,000 per month. Do-overs require you to pay back any Social Security income you have already received. (See our May 2009 Issue for more details of this strategy.)

In some cases, you could owe eight years' worth of Social Security, so it is important that you hold on to your tax records. But there aren't any penalties or interest when paying back benefits. A big downside to this strategy is that if both spouses die shortly after paying back their benefits, the money paid into Social Security is gone. If a husband pays back the money collected and dies, his wife still gets the higher benefit.

For couples in which one person is the breadwinner, **another little-known strategy is called "file and suspend."** For example, a husband files for his benefits, and his wife files for the spousal benefits. The husband then requests a suspension of his benefits, but the wife continues to get the spousal benefits. The husband's benefit continues to grow until he chooses to begin taking payments.

Another strategy to consider: restricting your benefits to spousal benefits. Here's how it works: Let's say a wife stopped working and is collecting Social Security benefits calculated from her work history, but her husband is still working and hasn't begun collecting Social Security. As long as he is at full retirement age, which is 66, he can start receiving spousal benefits based on his wife's Social Security amount. This means that he would get half his wife's Social Security income each month while still allowing his own benefits to accrue. At 70, he would stop receiving his spousal benefit and file for full Social Security benefits. This gives him four years of added income he never thought he'd have.

Although many of the strategies work for couples, **children** are also entitled to Social Security in certain cases, and even **ex-spouses** can receive Social Security benefits. For instance, minors can receive benefits until 18 if one of their parents dies.

In another strategy, the child of any individual collecting Social Security can claim about half the parent's benefits.

Even divorced spouses are eligible for benefits from previous spouses as long as they were married 10 years before filing for divorce.

Oh, the Social Security office worker did not tell you about these strategies? Don't be so surprised, many of them don't know these secrets either. One of the benefits of being an investment client of mine (meaning I manage your investment portfolio), is that I will work through various financial strategies with you—Social Security being just one of them. Investment clients **just need to ask**. I'm also happy to help non-investment clients at my standard consultation rate.

Montgomery Taylor, CPA
Client Benefits:

1. Expert tax-saving advice as a regular part of your income tax preparation
2. Professional Service Warranty that guarantees you the largest tax refund possible with the lowest tax liability
3. Your tax returns completed within eight business days of when you provide all necessary data
4. Your phone calls returned promptly (any time of year), always within 24 hours
5. Help with allocating your 401(k) investment funds
6. Monthly ClientAdvisor Newsletter
7. Professional online tax advice anytime ~ mtaylor@taxwiseadvisor.com

Platinum Tax Maintenance Program
2009 Member Benefits:

1. ALL CPA Client Benefits listed above, **AND**
2. Three phone consultations (20 minutes each or a total of 60 minutes) during the tax year scheduled through our appointment desk
3. W-4 review to be sure your withholding is correct
4. Audit assistance in the event you are subject to an audit for the 2009 year, limited to four hours of service at no additional expense
5. Answer all IRS notices and correspondence you receive for 2009 tax year
6. Answer FTB notices and correspondence including Head of Household Audit Letter for 2009
7. 1 additional copy of tax year 2009 tax return
8. $50 discount on our fall tax planning appointments scheduled through our appointment desk

Montgomery Taylor & Company, LLC,
Registered Investment Advisor
Client Benefits:

1. Independent, unbiased, investment advice on a fee-only basis (no commissions)
2. Investment management for any account size (no minimums)
3. Monthly account statements directly from Fidelity Investments
4. Quarterly performance reports and consultation meetings
5. Tax-sensitive investing strategies integrated with your financial planning
6. Monthly ClientAdvisor Newsletter
7. Weekly Economic Update e-mail communication

College Plan Advisors, LLC
Client Benefits:

1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly "Tip of the Week" E-Mails

Green Label Portfolio ™

Notes from Monty's private money management file…

As you might guess, the stock market twists and turns in mysterious ways. Mid-May brought the long-awaited pullback and buying opportunity I had been waiting for. My various resources and technical indicators were pointing to acquiring some additional positions, and I did.

Within days of those new purchases my security strength and momentum models turned negative. My stop loss point was violated and I sold out of all Green Label Portfolio positions.

Here are some of the signs: 1) the S&P has broken decisively under its 50-day moving average, signaling an intermediate-term trend shift, 2) the index failed its retest of the 50-day last week, keeping the May breakdown in play, and 3) recent weakness has been driven by a sustained volume increase, encompassing five 10-to-1 down days (These are statistically unusual sessions in which declining volume has outpaced advancing volume by a 10-to-1 margin or greater.)

I am following a strict portfolio discipline which requires the use of (mental) stop losses for the portfolio. At the beginning of a buying campaign I think long-term, but have a predetermined exit strategy if the market goes against me. The market is going to be here tomorrow and it will present us with many more opportunities in the future.

From the July 2009 buy-in date to this sell-off, my model Green Label Portfolio had a gain of 10.59%.

Obviously, for those accounts where I had just recently put new money to work, I am disappointed that our recent entry and exit from the market was unprofitable. My expectations are always high when I have the opportunity to go into new positions. As I have stated many times in my newsletter over the years, the reality is that there is no Holy Grail when it comes to making money in the stock market. I have a well defined plan with an exit strategy, and my success over the years comes from having the discipline to follow the strategy.

My intention is that when I get a new momentum buy signal, I will return to a 100% invested position. Being stopped out now does not mean that we are in for a new prolonged bearish cycle. I approach the market on a day to day basis and I follow the dictates of our momentum models. (Written May 20, 2010)

Monty's Money Message

Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to share with you about money and how you can prosper. Monty recently received the "America's Top Financial Planners" award of excellence from the Consumers' Research Council of America. Monty was selected from among his peers based upon years of experience, formal education and specialized professional certifications and designations achieved. In 2010, KZST Radio named Monty "The Only CPA We Trust" and chose him to be the tax expert for KZST listeners.

California couple sues VALIC over its annuity sales practices*
(And what this means to you personally)

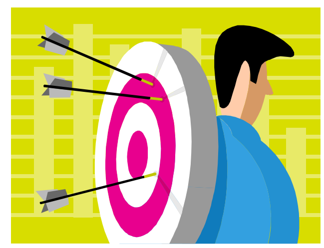
NEWS BULLETIN

Class action claims that the AIG unit's agents misled investors

A California couple has filed suit against the Variable Annuity Life Insurance Co., an American International Group Inc. subsidiary, claiming that the company's sales agents misled investors about the tax advantages of using variable annuities in qualified retirement accounts.

Plaintiffs John and Brenda Hall say that they each bought a variable annuity for inclusion in their 403(b) tax-deferred retirement plans. The Halls are both public school teachers in Atwater, California.

In a class action filed in U.S. District Court in Arizona on Dec. 21, 2009, the Halls alleged that VALIC and affiliate Variable Annuity Marketing Co. trained its agents to target 403(b) plan participants as sales prospects for variable annuities even though the products aren't suited for such retirement plans.



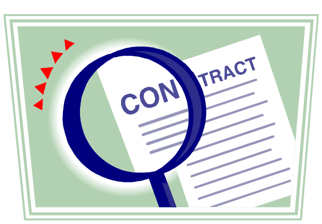
Both variable annuities and qualified retirement plans grow on a tax-deferred basis, so variable annuities don't provide any tax advantages when included in such plans. It is also a costly decision because clients are also paying fees on the variable annuities and face surrender charges for untimely withdrawals.

The Halls argue that because VALIC's sales representatives presented themselves as knowledgeable financial advisors—rather than insurance agents—they and other clients trusted them and bought variable annuities that they otherwise wouldn't have purchased.

The complaint accuses VALIC and its agents of making material misrepresentations and failure to disclose material facts. The Halls are suing on behalf of all individuals who bought a VALIC deferred annuity after Jan. 1, 1974, in order to fund a qualified retirement plan.

Others named in the suit include VALIC Financial Advisors Inc., VALIC Separate Account A, and a slate of former and current VALIC executives.

***Even if you don't have a VALIC annuity—YOU should be reading the above very closely!!**



Why? Because I see the same thing happening to poor, unsuspecting people all the time. Whether you're a school employee dealing with a "financial advisor" who represents the school 403(b) plan, a company employee dealing with the 401(k) plan representative or you're just walking into your local bank for some investment help--**you have to understand** that more often than not, you're dealing with a paid salesman. They are trained to sell you something (anything), collect their commission, and move on to the next sale.

Please, if you're a client of mine, don't fall for these scams. Use me as a sounding board if you'd like. Bring any financial product, investment or insurance, to me and I'll give you my experienced, unbiased and independent opinion of it. I'll feel better knowing that you made an informed decision to do something—and weren't just suckered into it. You'll feel better too, as you side-step financial mistakes and make wise decisions.