

# tax&investment newsletter

May 2010

MONTGOMERY TAYLOR, CPA, CFP

Now and then it's good to pause in our pursuit of happiness and just be happy.  
 -Guillaume Apollinaire

## Monty's Opening Thoughts...

Tax season is over and I have a question. . . *"What can I do for you today?"*

You are our client and your need for our services is what motivates me to get up each morning, put on my work boots and get to work. You have certain needs that I delight in. . . such as getting the IRS off your back, allocating your 401(k) so it will grow, thinking through a foreclosure or short-sale, figuring out how to pay for your children's (or grandchildren's) college education, giving your family financial security, managing your investments for you, helping you get your financial house in order—so you won't be stressed about it! . . . to name a few.

I'm standing at your door, knocking, asking, *"What can I do for you today?"*

I'm not kicking your door in, I'm just asking, *"What can I do for you today?"* I'm also giving you little reminders, all throughout this newsletter, about the needs you have. Needs you may be painfully aware of or perhaps needs which have until now gone undetected but may eventually slap you silly—financially speaking.

So here is the first reminder, from page 3 this month: most **wills and living trusts need to be amended**. If you don't, you may leave your family an enormous mess.

On page 5 there is a reminder about accepting **financial aid awards from colleges**. It has been my experience that many people misunderstand these award letters. The award may be negotiable—but most families don't consider it.

Page 6 includes very interesting data on Americans and their preparation for retirement. Did you know that **83% of Americans have no written financial plan** at all? People's reasons for not having a plan are extremely lame—admittedly, I'm a bit biased. But, if you're driving down the road without a map (or GPS), you may not arrive at your expected destination. A map is the cheap part! Page 6 is also the place to turn for a look at what I charge for retirement planning.

Don't miss page 7 and the discussion of money management. I talk about the performance of the **Green Label Portfolio** and about how well we're doing. . . but that is **NOT** the reason you should hire me to manage your money! The reason **IS** the value of **all the financial advice you're entitled to** as part of our investment advisory relationship. (Note to any investment client not feeling like this **IS** the reason: you may not be getting it because you're not answering the question: *"What can I do for you today?"*)

In the Money Message on page 8, I share with you some stories of business failures that turned into successes. I provide a list of **famous people who went through bankruptcy on their way to success**, lest you think that any financial mess you're in right now is permanently dooming you to failure. It's not. It's just a stepping stone to the financial future you plan for yourself.

-Monty



The Montgomery Taylor and Company staff take time out for a photo on Tax Day, April 15, 2010 (L to R: Phil, Monty, Sandy, Mary-Ann, Pat, Barbara)

## What can we do for you today?

### Inside This Issue

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## STAFF NEWS

During May many of you will have loved ones graduating from high school or college. As you look forward to the upcoming commencement ceremonies, remember that graduation is a process that goes on throughout our lives. As we graduate from one year to another, one experience to another, one relationship to another -- we are always learning. As we recently "graduated" from tax season, our staff is reflecting on our "other" graduations.



**Barbara** graduated from **Oceanside High School** back when taking a business class meant learning how to type on a manual typewriter and the school dress code forbade girls from wearing pants

to school. After graduating from **MiraCosta College** she went to work full time, got married and started a family. Later, her graduation from **Humboldt State University** marked the beginning of her professional career.



**Sandy** graduated from **Neil A. Armstrong High School** in Plymouth, Minnesota, in an era when the business classes had advanced to using electric typewriters (remember the IBM *Selectric?*), and the girls wore pants to school pretty

much every day. Later, college graduation was a low key affair—it just didn't seem like a big deal to be graduating as one of thousands from the **University of Minnesota-Twin Cities!**

**Monty** graduated from **Healdsburg High School** back when mini-skirts were the fashion and (therefore) he doesn't remember if there *were* any business classes. ☺ He graduated from pegged pants to bell-bottoms between the time that Neil Armstrong landed on the moon and the Watergate hearings were dragging on and on. Two years later Monty graduated from **Santa Rosa Junior College** with an A.S. degree in Administration of Justice. Then, after much career "adjustment", he completed a B.S. degree in Accounting at **Sonoma State University**.

**We wish all students a happy graduation and a bright and successful future!**



## Here's a Night and Day Difference

Comparing Monty's services with other CPA's is like night and day. I feel more informed and trust his

numbers more. I had an idea of what I wanted to do with my money, and he confirmed that I was on the right track. Monty's help gave me great relief during tax season because his integrity was there.

Montgomery Taylor and Company has good tax accountants. He is trustworthy and accurate. I think Monty has thought-out his services thoroughly. And he's willing to work with you.

**Linda Dorman**, Retired Teacher, Rohnert Park

**Could a ROTH Conversion affect a Student's Financial Aid? Check out Monty's blog:**

<http://taxwiseadvisor.blogspot.com>



# Tax Strategy of the Month

“Here’s an idea I think will save you money!”

## Estate Tax Change Could Cause Enormous Nightmares to Those Who Aren’t Paying Attention



There is good news and bad news about having no estate tax this year. The good news is obvious: no estate tax.

But the bad news is that there is no longer a step-up in basis for property with unrealized capital gains. This means that some heirs could pay more tax this year than if the estate tax were still in force. The previous step-up in basis on inherited property meant that heirs used as their cost basis the market value of the property at the time they received it.

Without the step-up and without the estate tax, unrealized gains on property aren’t taxed on the death of the person making the bequest but instead at the time when inheritors—who assume the original owner’s cost basis—sell the property. In other words, only when heirs sell the property are capital gains triggered.

This change could cause enormous nightmares as heirs try to reconstruct and document the cost basis of inherited property. There is some comfort: in 2010, the government allows a \$1.3 million step-up of unrealized appreciation to heirs and an additional \$3 million if the inheritor is the spouse.

**Who can be hurt?** Although wealth has always transferred from spouse to spouse without being subject to estate tax, the same won’t be true for property that is inherited in 2010, which will be subject to capital gains taxes if it has high amounts of unrealized gain. Children receiving

property with unrealized gains exceeding the allowance will face a new calculus on what to do with inherited shares.

To reflect the temporary elimination of the federal estate tax and the risk that money won’t be distributed as intended, **most wills need to be amended.**



Wills for most sizable estates are set to distribute property among heirs with reference to amounts allowed under estate laws or generation-skipping tax provisions that (for this year, at least) don’t exist. All of your estate planning documents should be reviewed.

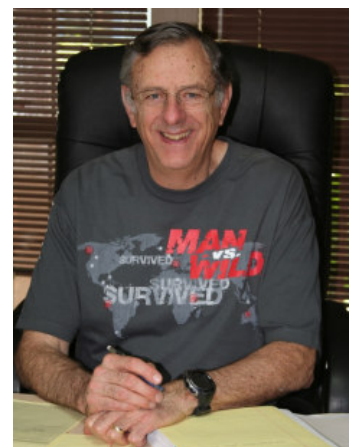
**As an example**, to maximize wealth transfer under the old rules, many wills were constructed to leave the maximum allowable amounts to the next generation without triggering the estate tax. After that, everything else goes to the spouse free of estate tax.

Using that methodology in 2010 could cause all the wealth to go to the next generation, with nothing for the spouse – certainly not what was intended. That is why anyone with a sizeable estate should check with his or her attorney to make sure that the necessary provisions are in place.

Aside from trying to die between now and December 31, are there ways to take advantage of this unique year? First, considering that the old law may be put back in place retroactively, don’t do anything you would not have done under the old law, or make sure that whatever you do is reversible. One thing you may consider is giving a gift. This year, the tax rate on gifts stands at 35%, down significantly from last year’s 45% and sharply below the 55% rate that is scheduled to kick in next year.

Additionally, there is no generation-skipping transfer tax in 2010. When that tax comes back in 2011, money gifted to grandchildren or descendants further down the line is scheduled to be taxed at a rate that is a tad below 80%. By that standard, 2010’s 35% gift tax looks like a bargain.

While the old law could be reinstated by the legislature, given the current political climate the possibility certainly exists that the new law will hold and we won’t have an estate tax in 2010.



## Tax News You Can Use...



### New health care law includes tax provisions

The new health care legislation includes sweeping changes for both individuals and businesses. The two laws, the **Patient Protection and Affordable Care Act of 2010** and the **Health Care and Education Reconciliation Act of 2010**, encourage universal health insurance coverage through options such as employer plans, state-operated exchanges, and private plans. Here are highlights of tax-related provisions included in these laws:



#### Insurance coverage

➤ **Small businesses.** Starting this year, a small business with fewer than 25 employees and average annual wages of less than \$50,000 may use a tax credit to partially offset the cost of employer-provided health insurance. The full credit is available to a business with ten or fewer employees and average annual wages of \$25,000 or less per employee.

➤ **Individual coverage.** Starting in 2014, an individual who doesn't obtain at least "minimum essential coverage" may be assessed a nondeductible tax penalty. The monthly penalty is calculated using a percentage of the taxpayer's income or a flat dollar amount.

➤ **Employer coverage.** Beginning in 2014, an employer with at least 50 full-time employees may be assessed a nondeductible tax penalty if it doesn't offer minimum essential coverage. Tax increases on high-income earners

➤ **Medicare tax.** Currently, the 1.45% Medicare tax applies to earned income like wages. Starting in 2013, two additional Medicare taxes may be imposed on high-income taxpayers:

1) A 0.9% Medicare surtax for joint filers on earned income above \$250,000 (\$200,000 for single filers).

2) A 3.8% Medicare tax on "net investment income" for joint filers with a modified adjusted gross income above \$250,000 (\$200,000 for single filers). Net investment income includes

"unearned income" such as interest, dividends, royalties, rents, gains from dispositions of property not used in an active trade or business, and passive activity income (but not distributions from qualified retirement plans and IRAs).

#### Other tax changes

➤ **Adoption credit.** The adoption credit is increased to \$13,170 for 2010 (from \$12,170) and extended through 2011. The credit is also made refundable.

➤ **Information reporting.** Effective for 2011, employers must report the value of health insurance coverage on each employee's Form W-2. Effective for 2012, a business must file information returns for annual payments totaling \$600 or more to every corporate recipient (other than tax-exempt entities).

➤ **Medical deductions.** Currently, you can deduct unreimbursed medical expenses in excess of 7.5% of adjusted gross income (AGI). Starting in 2013, the floor will be raised to 10%. Exception: Prior to 2017, individuals who are 65 or older are exempt from this increase.

➤ **Flexible spending accounts (FSAs).** Beginning in 2013, the maximum amount that may be contributed to a health care FSA will be limited to \$2,500 (adjusted for inflation thereafter).

The health care reform legislation will affect *every* taxpayer and *every* business. Contact us for more information on how the new rules will affect your taxes.

### IRS is conducting employment audits

The IRS has launched a three-year auditing project that will examine about 6,000 U.S. companies for compliance with employment tax obligations.

The project is the first of its kind in 25 years, and its primary objective is to collect data to identify areas of noncompliance across all industry sizes and sectors, including nonprofits and governmental entities. This data will be used by the IRS to update its audit selection formulas in an area where noncompliance is considered a serious drain on the U.S. Treasury.



## Tax News You Can Use (continued)...

Among the issues the audits will look at:

- \* Classification of workers as employees or independent contractors, including executives rehired as consultants, dual status employees, and employee leasing arrangements.
- \* Fringe benefits, including expense reimbursement arrangements and noncash benefits.
- \* Executive compensation and fringe benefits, executive retirement contracts, golden parachutes, and stock options.

Employers can take some steps to prepare for these payroll tax audits. For example, conduct a mock audit to check how your company handles the three focus areas – classification of workers as employees or independent contractors, fringe benefits, and executive compensation. Your company may not be selected for the research audit program, but you also need to be ready to face an audit following the three-year project.

### HIRE Act certification form now available



The *HIRE Act*, passed in March, provided tax incentives for companies to hire unemployed workers. One of these incentives is an exemption from social security payroll taxes for every qualified worker hired after February 3, 2010, and before January 1, 2011.

A new IRS form is now available for employers to document this payroll tax exemption for hiring unemployed workers. Form W-11 (Hiring Incentives to Restore Employment Act Employee Affidavit) is to be filled out by the new hire, certifying under penalties of perjury that he or she was either unemployed or worked fewer than a total of 40 hours during the 60 days prior to taking the current job. The W-11 forms are not filed with the IRS; the employer must retain them along with other payroll records.

**Tax Advice Disclosure:** To ensure compliance with requirements imposed by the IRS under Circular 230, we inform you that any U.S. federal tax advice contained in this communication (including any attachments), unless specifically stated otherwise, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties or (ii) promoting, marketing or recommending to another party any tax-related transaction(s) or matter(s) addressed herein. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

## College Strategist

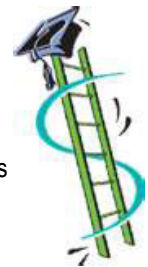
Paying for College Without Going Broke

### Springtime is Decision Time

College acceptance letters are in the mail. The first sentence usually tells it all—either the school is happy to extend an offer of admission or the school regrettably is unable to extend an offer at this time. Although at that moment that's all you really want to know, keep reading! An acceptance letter from a college often has instructions you'll need to follow, should you choose to enroll at that school. Look for deadlines for acceptance and submitting final high school transcripts. Look for additional forms to fill out and return. Deposits may be required—make sure you are aware of deadlines. The acceptance letter may also include information about housing, meal plans and freshmen orientation.

If you've applied for financial aid at the schools where you've been accepted, you will soon find out how much financial support the school is offering in an award letter. The most common types of financial aid are:

- **Grants:** Money that does not have to be repaid
- **Work Study:** Money earned toward college costs by working on campus.
- **Scholarships:** Money that does not have to be repaid
- **Loans:** Borrowed money that must be repaid



Read the award letter carefully; be sure you understand all terms and conditions so you can decide if you want to accept any, or all, of the aid offered. Look for instructions for the next steps. You may need to complete additional paperwork such as student loan applications. Determine if grants or scholarships are available for more than one year. If so, what conditions apply? Remember, unless otherwise stated, this letter applies only to the upcoming school year.

Cost is certainly an important factor, but you shouldn't decide on which college to attend based on money alone. Revisit the reasons that you applied to each school — academic reputation, location, first impression, environment — before deciding.



Once you've chosen your school, inform the school in writing how much of the award you plan to accept. If you don't respond by the date indicated, your award could be in jeopardy. If you find yourself in need of some experienced advice when comparing admissions decisions, overall costs, and financial aid offers, please give us a call at (707) 576-8700. We will be happy to clarify these issues and discuss financial strategies to protect the money your family has saved for college while maximizing your eligibility for financial aid.

# Financial Strategy of the Month

“Here’s an idea I think will save you money!”



## IS AMERICA PREPARED TO RETIRE?

*Two-thirds of us have no financial plan. Want to know what a plan costs?*

**64% of Americans have no financial strategy at all.** That’s right – no plan whatsoever to build wealth or keep it. That finding comes from the 2009 National Consumer Survey on Personal Finance conducted by the Certified Financial Planner Board of Standards, Inc. (Survey data was collected from 1,700+ U.S. residents.)

**Only 17% of us have a written financial plan that is updated regularly.** So congratulate yourself if you are in that group! The CFP Board found that just 17% of the 36% polled who had a written financial plan had reviewed it in light of changing times. Notably, 48% said they had benefited from having a written plan.



**Just 38% of the 36% having written financial plans retain a financial advisor.** The really troubling part: 38% of those with written plans are doing their financial planning on their own. Another 12% of respondents with written plans have consulted a friend or family member who is *not* a financial services professional for advice.

**Why don’t more people have a financial plan?** After all, Americans of all incomes and savings levels certainly are free to set financial goals. In the survey, the reasons varied. Some cited the expense of engaging a financial advisor; some said they get along just fine without a financial plan, and others felt their finances weren’t complicated enough to warrant one. Others were hazy about financial services industry qualifications - 40% of respondents had no idea that there were professional credentials or designations for financial advisors.

**Defined goals lead to definite plans.** If you set financial objectives and plan for them, you vault ahead of most Americans – at least according to the CFP Board’s findings. A written financial plan does not imply or guarantee wealth, of course; nor does it ensure that you will reach your goals. Yet that financial plan does give you an understanding of the distance between your current financial situation (where you are) and where you want to be. Too many Americans, it seems, have little comprehension of their financial situation or their financial potential.

**How much planning have you done?** Retiring without a financial plan is an enormous risk; retiring with a financial plan that hasn’t been reviewed in several years is also chancy. A relationship with a financial advisor can help to bring you up to date about what you need to do, and provide you with more clarity and confidence when it comes to your financial future.

**So, what goes into a retirement plan?** When you ask me to prepare a retirement projection, here are the steps we go through: **1)** a one hour meeting with you to gather your current financial data and retirement needs, **2)** seven hours of my time running projections, designing a plan and documenting my recommendations, **3)** a two hour meeting with you to present the plan and answer your questions. Adding that up, I put about ten hours of time into developing your plan. At \$250 per hour, the planning bill comes out to about \$2,500. There you have it. For the price of a big screen TV, a laptop computer or half of a hot tub.... you could have **peace of mind.**



(Special note to clients: If you have already hired my firm to manage more than \$500,000, I will run these retirement projections for you periodically at no extra charge.)

**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



**Notes from Monty's private money management file...**

The portfolio is doing well, up **1.23%** in April, **6.76%** year to date (through 4/30/2010).

Here are some of the peak performers on a year-to-date basis:

- **VNQ +22.84%** Vanguard REIT Index, seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs.
- **XRT +20.24%** SPDR S&P Retail, seeks to replicate the total return performance of the S&P Retail Select Industry Index.
- **XLI +17.58%** SPDR Industrial Select, includes aerospace and defense, building products, construction and engineering, electrical equipment, machinery, airliners, marine, road and rail, and transportation infrastructure companies.
- **ICF +14.84%** iShares Cohen and Steers Realty Majors, invests at least 90% of its assets in securities of its underlying index and depositary receipts representing securities of the index. It invests the remainder of its assets in securities not included in the index, but which will help the fund track its index, and in futures contracts, options on futures contracts, options and swaps, as well as cash and cash equivalents.
- **XLF +12.84%** SPDR Financial Select, includes banks, diversified financial, insurance and real estate companies. The fund will normally invest at least 95% of its total assets in common stocks that comprise the relevant Select Sector Index.

There was very little trading activity in April as the markets inched upward. The long-awaited pullback, and buying opportunity, did not materialize. We ended the month with an allocation of 22% cash, 70% stock and 8% commodities.



**CAUTION:** You should not make any investment trading decisions based upon what you read in this column. You could not match our investment management techniques simply by acting on what you read here. This is only intended as update information for those whom we manage money.



# 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.

## Famous People Who Failed on Their Way to Success (...Don't Let Today's Financial Mess Cloud Your Future!)

### There Might Have Been No Mrs. Fields Cookies

When Debbie opened her first store, she put it in a good location in a busy downtown shopping mall surrounded by high-rise office towers, with lots of foot traffic all day long. She assumed that "organic search" assisted by good signage and location would bring plenty of customers in, and she put all her money--and, against her husband's wishes, a mortgage on her house-- where her assumptions were. Then she went there, baked great cookies, and waited. And by halfway through Day 1, with hardly any cookies sold, she decided waiting wasn't gonna cut it. To her credit, she loaded up a tray with hot from the oven cookies, put on a big smile, went out to the mall and the street where the people were, and pushed cookies. And dragged in customers. Had she not, there never would have been a Mrs. Fields Cookies empire.



### The World Doesn't Need Another Soda



If you've flown out of the Charles Schultz Airport on Horizon Air, you've probably tasted a Jones Soda. The Jones Soda Company was founded by Peter van Stolk. His pure cane sodas are now sold at Wal-Mart and Starbucks, but

he started out peddling them through small ski shops and skateboard stores – as the soda for the cool kids. While forced to start with alternative retail outlets, where at the time (the late 90's) beverages were not sold, van Stolk quickly embraced it as strategy: *"We actually went after places where enthusiasts gathered and people were passionate"* – a necessity for building a brand by word of mouth. Even though merchandising a product requiring retail distribution, i.e. sales through others, van Stolk encouraged and sustained direct relationship with the end-user customers via a popular web site, offering opportunities to buy as few as a dozen bottles of soda with the labels customized with your own photo, and producing new flavors suggested by customers. The most important part of this entrepreneur's thinking is summarized in his statement: *"I started with the concept that the world doesn't need another soda."*

### Dell Computer's Big, Fat Failure

The urban myth that Michael Dell ingeniously set out to directly market made-to-order computers to consumers via mail-order and the internet is exposed in the book *'Billion Dollar Lessons.'* Truth is, direct marketing was his desperate Plan-B, when he failed at getting any retail distribution.



### Bankruptcy Alumni



A partial list of famous and successful people who have gone through bankruptcy:

- P.T. Barnum
- David Buick (founder, Buick Motors)
- Walt Disney
- James Folger (founder, Folgers Coffee)
- Henry Ford
- Conrad Hilton
- J.C. Penney
- Sam Walton
- William Fox (founder, 20<sup>th</sup> Century Fox Film Corp.)
- H.J. Heinz
- Frank Lloyd Wright



The incredible commonality among successful entrepreneurs is having been broke or formerly gone through bankruptcy. There are reasons: For one thing, entrepreneurial success and wealth creation, as well as wealth attraction, require a willingness to risk and experience failure and the emotional resiliency to recover from it quickly, decisively, passionately, and persistently.

Hardly anybody gets to success via a straight line. (You don't actually think and grow rich.) **They achieve success by getting over the fear of failure, getting up each morning, putting on their work boots and doing more than the next guy.**

