Financial Solutions

Direction to Help You Reach Your Goals and Find Peace of Mind

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Greetings –

As we write this newsletter, the first quarter is coming to an end. We hope that all of you are off to a wonderful start in meeting your goals, financially and otherwise. Good job if you're on track! If not, how can Financial Solutions modify your plan or the coaching we offer to help you?

We have purchased different software for financial planning, one that is goal oriented and will generate useful reports for you. In the near future we will be purchasing software to generate investment reports (for those of you who hold investments with us in Ameritrade accounts) as soon as it becomes available from Intuit. We spent a lot of time using another product on a trial basis and finally decided that we were not satisfied with it. The program we want is not yet available for sale. More changes are underway and will be announced soon.

Clients, please call us to update any information prompted by this newsletter, to review your plan, or to discuss any area of concern.

Now is the Time to Contribute to IRA's

You have until April 17th to make your contribution. If your income is very high, you can still contribute your maximum to a Traditional IRA and simply not deduct it. Then you will get the future benefits of tax deferral. If your income is not too high (under $50,000 married) you may be eligible for a retirement savings credit, too. There are lots of confusing rules, so consider calling us to clarify what you might be able to do to have the best chance of maximum tax savings in the long run.

Moving Taxable Funds to Nontaxable Accounts

A good potential strategy for folks who do not have enough "new" money to fund an IRA or other type of tax-deferred investment plan may be to use taxable account funds to rollover to the tax-deferred account. Usually this is fairly simple to do. Make sure that the move will not cost you much in load, commission or other expenses. If it will, be sure that the transition is worth the cost.

Rebalancing Portfolios

Studies show that a long-term winning investment strategy in most cases is rebalancing your portfolio at least annually if you have diversified holdings. Rebalancing forces you to buy low and sell high. And that's usually a winning strategy.

You may wish to consider rebalancing if you haven't done it in more than a year. When your quarter-end statement comes, check your current allocation against the original one. You may find that small caps and international stocks and funds, which have generally performed well, are now at a higher percentage than you planned.

Products exist that automatically rebalance for you. Some of these are certainly worth considering, especially if you don't have the time or desire to do it yourself or hire a professional to assist. Employer retirement plans are now offering these products. We help with employer plans such as 401(k) s, 403(b) s, and 457(s). Small business owners may be helped with a SEP or a SIMPLE (too late for the latter for 2005).

Two warnings: 1) Taxable accounts require high-level knowledge on your part or you need professional help prior to rebalancing. There are many tax consequences involved.
2) If your trading costs are high, rebalancing may not be worth the extra cost. Watch out for commissions and loads.

Estate Planning

Please make sure you have seen a lawyer to update or draft your will or revocable living trust, durable power of attorney, health care power of attorney and advanced health care directive. If you wish to be an organ donor, mark it on your driver's license. We do not provide legal advice or documents.

Check to be sure the wording of your bequests correctly distributes your assets as you wish. For example, your grandchildren would include your children's biological children and their legally adopted children but not their step-children who have not been adopted. Also, under bequest distributions made per stirpes, your child's children will inherit his/her share if he/she predeceases you. If you choose to make distributions per capita instead, the bequest will exclude the children of a child who predeceases you. Call your attorney for more information.

Retirement Planning

Adapted from a February 14, 2005, Newsweek magazine special report on retirement issues (with additions from John):

1. A paid-up house, combined with a home-equity line to tap for emergencies, often provides the best income and asset security. Make sure your insurance coverage, including flood if necessary, is at full replacement value each year. Do not tap the home-equity line if you do not have an emergency.

2. The age at which you retire is your most important financial decision. An early departure may require significantly more money. Don't get out because you don't like your job. If you're not happy at work, consider what you really want to do that you would enjoy and that would bring

you an income with which you could be satisfied. Working part-time for fun after retirement or after a year or two "off" also makes a lot of sense so you can let your retirement savings continue to grow.

3. Those most likely to do well in retirement are those accustomed to living one notch below their income. Are you a saver or a spender?

4. Using retirement savings to bail out adult children is often a bad idea. However, paying health insurance expenses for adult children can be a sensible idea to keep them covered for catastrophic losses and eligible for health insurance on their own if they are or become uninsurable.

5. After you retire, you will need a certain amount of funding to meet your needs each year. To maintain your retirement account for a significant period of time you should keep withdrawals to 4-5% of the total available per year. We can show you the studies.

10 Ways to Prevent a Tax Audit

Adapted from an online report written by Louise Banks

Both individuals and businesses can receive letters from the Internal Revenue Service (IRS) requesting a meeting to audit tax returns filed over the course of several years. About 1.5% of all tax returns are audited each year. You've likely already filed. If you realize an error was made, you may file another return before the due date without any penalties. Mistakes made on previous year's returns should be amended using the 1040-X form.

Tip #1: Report all income - You are required to report in detail all the income you receive from all sources. Tips and any cash payments have to be reported.

Tip #2: Have proper documentation - Each company you work for will send you a 1099 or a W-2 that reports your income from the year before. The numbers on these forms should match the numbers on your tax return. It is always best to have the paperwork that can prove the accuracy of everything you enter on your tax return.

Tip #3: Check return for math errors - Errors in math get you noticed by the IRS. Check the figures on your tax return. Make certain you enter amounts on the correct line of the form. The IRS might assume that if your math is sloppy that there are other errors as well.

Tip #4: Keep records for Schedule C - If you have a business, that can also send up a red warning flag. Some business owners are easily able to hide parts of their earnings to avoid paying taxes on this income. Creative bookkeeping or the possession of two sets of books is illegal. You must keep excellent financial records of all aspects of your business to make Schedule C accurate. If you can't keep good records, hire or contract with someone who can.

Tip #5: Use your home office just for business - Claiming a home business or office can also flag your return. Make certain that the space or room you use to conduct business is kept separate. Having a dining room that is occasionally used for your home business is not legally a home office. Do not keep personal belongings in a home office or use the space for socializing. If you have business meetings at home, keep a log of your clients or business partners. Make sure that no more than twenty percent of your home is claimed as a home business office.

Tip #6: File a joint tax return - Filing tax returns separately from your spouse can put you at risk for a tax audit. This usually occurs because there are a large number of deductions or there are duplicate deductions on each tax return.

Tip #7: Don't forget to sign or file your tax return - In the rush to get your tax return filed on time, you may fail to sign the 1040. Others prepare the tax return and then forget to mail it. These two errors can leave you at risk for an audit.

Tip #8: Check your personal information – Double check to make sure that your personal information is correct on your tax return. Name, address, social security numbers are vital.

Tip #9: Keep track of large money transfers - Large money transfers attract attention from the IRS. For example, if you transfer money from an interest bearing account to a non-interest checking account or savings account, this may appear to be double income. Try to limit the number of large money transfers and keep detailed records of these transactions.

Tip #10: Be careful of deductions - If your itemized tax deductions appear too high in relation to your income, this could signal an audit. The IRS has guidelines for the average amount of expenses for each income bracket. Take the tax deductions you are entitled to, but be aware that if you exceed the average for your income level, this increases your chance of being audited.

Insurance

When you have work done on your property, you may incur legal liability for injuries of the workers. Jury awards in personal injury cases are increasing. Therefore, ask your contractors for proof of their insurance and make sure their policies are up to date. Usually this will be Worker's Compensation Insurance. Doing business with uninsured workers may save you some upfront cash, but is risky if something goes wrong.

Online Banking

Online banking is a convenient way to save time and money if you use a bank that offers free online banking. It also provides fast transactions, easy tracking of funds, immediate fund transfers, a way to review old statements, and often a way to download to your own financial software such as Quicken or Money. We encourage use of local banks for customer service and local economic reasons but want you to be aware that some online banks offer high interest rates on small savings accounts that you can tie to your checking account. Several clients have chosen to use them due to the much higher returns.

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