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2011 Winter Newsletter

December 21, 2011



Schulmerich & Associates Asset Management wishes you a healthy and Happy New Year. There's no doubt that our country has been through a difficult and tumultuous time, and like most people, I'm looking forward to a more peaceful and prosperous New Year. My most important resolution is to take a moment every day to be grateful for all that I have — my health, my family, my friends, my clients, and a home where I feel happy and safe. To all my clients, I hope the new year brings happiness and good health to you and your families.



A Teachable Moment For our Children: Saving

One of the most important and necessary things one can do for one's financial wellbeing is to start saving. This is something that we need to teach our children to do while they are still young. Once the habit is instilled it automatically develops and becomes much easier for a person to save on a regular basis. The excuse that everyone typically has for not saving money is that they don't have any money to save. They are barely making enough money to pay their bills. Here one should remember that what we make is what we spend. The good news is that what we spend also becomes what we make.

When you are young and earning money on a regular basis, you probably don't see the need of saving any money. However, if you become injured or ill or if you lose your job, you do not have any income and thus no way of meeting your financial obligations. This is when the importance of saving for the future really sinks home. You do need to prepare for such occurrences and have the resources you need to fall back on in the way of savings. Most of us are conditioned to earn as much money as we possibly could depending on our capability and once we do earn it we spend it all and enjoy the fruits of our labor. It may sound like a great way to live, but it carries a lot of risk with it.

Also, most people tend to think that with the increased cost of living and family related expenditure it is impossible to save. They also feel that since they are entitled to get pension and other retirement benefits there is no need to curtail necessary expenditure and save. Unfortunately with this kind of thinking you are spending all your earnings or even probably living beyond one's means. People who make a lot of money but who don't know how to save are just at a higher level of "broke". Money flows through their life, but nothing ever gets retained.

Thereby, Reducing our spending, as opposed to earning more money, is the real key to gaining control of our finances. By saving one is able to build a reserve for the future which pays for large future expenditure like buying a house, financing a child's education or going on a long holiday...

It is advisable to start saving while one is young, even a small amount goes a long way. At a later stage in life it becomes hard to start saving because of the added responsibilities and expenditure and one may be earning just enough to cater to all the needs. Money saved is money earned and money set aside gives many options and opportunities down the road.

Just to give an example of this ...Although one may not think it is worthwhile, but saving as little as \$20 a month will add up as you continue to

save over a long period of time. As your finances improve you can increase the amount accordingly.

If one were to save \$200 each month for a period of five years, it grows into a tidy sum of \$ 12,975/ and if saved for a period of 10 years it grows into a sum of \$26,170/, and in 30 years it grows into a huge sum of \$ 82,810/. Here the interest calculated is a minimum of 3 and a half percent per year compounded on a monthly basis..

The best thing about saving money is that the minute you make a decision to save a portion of your income -no matter what, all of a sudden you find your income increasing because you become focused. Just by setting aside an extra \$ 50/ per month into a savings account as a starting point for your savings plan, you will either increase your income by 50 dollars or your expenses will drop by 50 doallrs, it is as simple as that.

Making sure that you don't spend too much and continuing to save on a regular basis is a good way of accumulating wealth. With investments your money will double after eleven or twelve years at a modest rate of 6 - 6.5 percent interest.

Saving for the future is also a way of staying out of debt or getting into financial difficulties of any kind. If you want to make a large purchase, you can start saving the money until you have enough to buy it outright rather than have to open a charge account or take out a bank loan on which you have to pay interest.

Just to make it easy to cultivate the saving habit here are some simple money saving techniques that can really help you put money aside for a rainy day.

Setting a goal:

What you need to bear in mind is that you dont need to make a fortune, you just need to save a lot more than you spend and accordingly work out a plan.

Start by making a list of all the necessary things you need to do with your money also taking into account 6 months of reserves just in case you are out of work for some reason. Once you have written down and calculated the amount needed, all that is needed is to work out the details as to how much money can be put away each month after all the expenditure and deductions. Making a list of all your expenditure helps you in curtailing unnecessary expenditure and you know exactly where your money is going.

Tax Time Returns!

The estate tax returns —

Oregonians who inherit estates worth more than \$1 million wouldn't get hit as hard by state taxes under a bill that won final approval Wednesday at the Legislature.

Under the bill, heirs would pay state taxes only on the amount that exceeds \$1 million at an escalating rate that starts at 10 percent and tops out at 16 percent. Under current law, the state taxes the full amount once it passes \$1 million.

The changes come amid complaints by farm and timberland owners that it's hard to pass along their estates without liquidating part of them to cover the tax bill.

After a number of attempts to rewrite estate tax law, the Legislature handed the task to the Oregon Law Commission. The commission recommended bumping the exemption to \$1.5 million and setting the upper end of the tax at 19 percent.

Those recommendations were discarded, however, out of concern that Oregon would wind up with one of the highest estate taxes in the nation. The final House tally was 45-14 for the changes, which have enjoyed bipartisan support. Many who voted against the measure favor eliminating the tax altogether. Under the bill, heirs would pay state taxes only on the amount that exceeds \$1 million at an escalating rate that starts at 10 percent and tops out at 16 percent. Under current law, the state taxes the full amount once it passes \$1 million.

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There was no estate tax in 2010, but there is for 2011. Starting January 1, the first \$5 million you leave to heirs is exempt from federal estate taxes; anything above that amount is subject to a 35% tax rate. And spouses can now pool their \$5 million exemptions — meaning that married couples can pass \$10 million to heirs free of federal estate tax. As a result of these changes, 99.9% of Americans will not incur an estate tax, and many married couples who are subject to the tax can now save thousands of dollars in legal fees because the new law eliminates the need for a bypass trust. But don't get too cocky: These changes in estate law expire at the end of 2012.

Tip: If you already have a bypasstrust, talk with your attorney about the law's implications.

The New Tax Law and You:

Tax Update *What You Need to Know If You Get a Paycheck, You're Getting a Big Pay Increase*

Enjoy it while it lasts!

As an employee, you know that some of your paycheck is withheld to pay for OASDI (Old-Age, Survivors and Disability Insurance) — more commonly known as the Social Security tax. Last year, you contributed 6.2% of your pay. But the new tax law cuts this tax in 2011 to just 4.2% — a 32% decrease! That means the maximum OASDI tax you'll pay is \$4,485.60 compared to \$6,621.60 in 2010. You should already be noticing that your paycheck is larger than it was in December. This temporary cut in Social Security taxes applies only to workers. Employers will continue to pay the same 6.2% for each employee as they did before.

If you're self-employed, you'll thus be responsible for both the worker's portion (4.2%) and employer's contribution (6.2%), for a total cost of 10.4%.

Tip: This tax cut is equivalent to a 2% raise! Use the windfall to boost your savings by increasing the amount you contribute to your retirement account at work or by increasing the amount you invest elsewhere.

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Education Benefits

Extended Through 2012

Other Deductions Extended Through 2012

Students and graduates who are repaying student loans enjoy an extension of benefits under the new tax law. You are able to contribute \$2,000 a year to a Coverdell Education Savings Account and use the money on education expenses, including elementary and secondary school through 2012. Also, a variety of tax credits have been extended through 2012, including the American Opportunity Tax Credit for students with qualified higher education expenses, the itemized deduction for student loan interest, and the Armed Forces and National Health Service Corps scholarship programs.

Tip: Despite the extension to Coverdell benefits, these accounts aren't the best way to save for college. Instead, choose a Section 529 College Savings Plan, which lets you save a lot more money with far fewer restrictions. If you are considering a 529 plan, you should ask about the plan's expenses, risks and fees. Some states offer tax benefits and lower fees to in-state residents. For help comparing the performance of different 529 plans or a prospectus, contact your financial advisor.

Several popular provisions that were set to expire in December have been extended through 2012. The Alternative Minimum Tax is unchanged — meaning that if you didn't pay it last year, you probably won't have to pay it this year, either. (Conversely, if you paid it before, you'll likely pay it again). If you have children, note that the Child Tax Credit, Earned Income Tax Credit, Adoption Credit, Dependent Care Credit and Employer-Provided Child Care Credit all remain available. Other provisions that remain include the ability to deduct state and local general sales taxes, a 30% credit for home energy efficiency improvements, and the repeal of the so-called marriage penalty.

Tip: The list is extensive. Instead of trying to become an expert on tax law, hire one. Have a professional tax preparer (a certified public accountant, tax attorney or enrolled agent) complete your tax return for you.

New Rules for 2011 **2011-2010**

Despite talk of big changes, the tax code for 2011

looks very similar to the code in 2010, with just minor adjustments for inflation.

Retirement Plans

Traditional, Roth IRA \$5,000 \$5,000, Simple IRA \$11,500 \$11,500, 401(k), 403(b), TSP plans \$16,500 \$16,500, SEP IRA & Individual 401(k) \$49,000 \$49,000

Catch-Up Contributions

(available if you are age 50 or older) Traditional, Roth IRA \$1,000 \$1,000, Simple IRA \$2,500 \$2,500, 401(k), 403(b), TSP plans \$5,500 \$5,500

Roth IRA Phase-Out Income Limits

Married filing jointly \$169,000–\$167,000–\$179,000 \$177,000 Single \$107,000– \$105,000–\$122,000 \$120,000

Deductible IRA Phase-Out Income Limits

If you are not covered by a retirement plan at work, but your spouse is Married filing jointly* \$169,000– \$167,000–\$179,000 \$177,000

Deductible IRA Phase-Out Income Limits

If you are covered by a retirement plan at work Married filing jointly \$90,000– \$89,000–\$110,000 \$109,000 Single \$56,000– \$56,000–\$66,000 \$66,000

*or if you lived with your spouse at any time during the year.

Tax Update

2011-2010

Tax Exemptions and Deductions

Personal and dependent exemption \$3,700 \$3,650 Standard deduction, married filing jointly \$11,600 \$11,400 Standard deduction, unmarried \$5,800 \$5,700 (other than surviving spouse and head of household) Section 179 (equipment expense) \$500,000 \$500,000 Business mileage (cents per mile) \$0.51 \$0.50.

Schedule A long-term care premium deduction:

If you are age 40 or under \$340 \$330

If you are age 41–50 \$640 \$620

If you are age 51–60 \$1,270 \$1,230

If you are age 61–70 \$3,390 \$3,290

If you are age 71 or over \$4,240 \$4,110

\$8,500 \$8,375

\$34,500 \$34,000

\$83,600 \$82,400

\$174,400 \$171,850

\$379,150 \$373,650

.....

10% \$17,000 \$16,750

15% \$69,000 \$68,000

25% \$139,350 \$137,300

28% \$212,300 \$209,250

33% \$379,150 \$373,650

35%

Tax Rates

Married, Filing Jointly Unmarried

Your Marginal Tax Rate Is: 2010 limit

(other than surviving spouse and head of household)

Social Security

Wage base \$106,800 \$106,800

Retirement earnings limit \$14,160 \$14,160 prior to full retirement age.

NOTE: The LTC deduction is not an outright federal tax deduction. The amount shown is added to other health expenses for the year, and total costs that exceed 7.5% of your Adjusted Gross Income can be deducted. Some states allow a tax deduction as well. Check with your tax advisor.

Gifts and Bequests

You can give up to \$5 million during your lifetime with no federal gift tax. The prior lifetime limit was \$1 million.

In addition to the lifetime limit, you can give up to \$13,000 annually free of federal gift tax.

Cut Your Own Personal Income Taxes

By taking a look at your tax situation now, you might be able to reduce the bite Uncle Sam takes out of your hard-earned savings. Below is a handy checklist:

Income Planning

Federal income tax rates will remain constant from 2011 to 2012. Therefore, taxpayers should decide whether to defer or accelerate income at the end of 2011 based on expected income and the best use of deductions between the two years.

Deduction Planning

Accelerate or defer deductible expenditures to maximize use of deductions.

Bunch medical expenses into the year they'll exceed 7.5 percent of adjusted gross income (AGI).

Consider whether to pay fourth-quarter state estimated tax payments before the end of the year to obtain Federal tax benefit.

Alternative Minimum Tax

AMT warning signs include large deductions for state income and property taxes, large miscellaneous itemized deductions, and sizable capital gains.

The AMT exemption amounts have been increased through 2011 (reducing the number of people affected by AMT). The exemption amount is scheduled to revert to pre-2001 levels in 2012, making it important to plan for AMT!

Capital Gain and Capital Loss Planning

The 15 percent Federal long-term capital gains rate has been extended through 2012. Consider tax loss harvesting strategies before year-end to offset current year gains or to accumulate losses to offset future gains that would be taxed at a higher rate.

If an installment sale is contemplated, consider electing out of installment sale treatment. Although this might accelerate tax, it will enable taking advantage of today's historically low 15 percent capital gains tax rate.

Cancellation of Indebtedness

New rules have eliminated the taxability of income from cancellation of indebtedness in certain circumstances related to home mortgages. A

qualified tax advisor should be consulted before agreeing to any loan modifications.

College Education Tax Incentives

The American Opportunity Tax Credit was extended to 2012. The credit, available for the first four years of education, has more liberal income limitations and provides for a portion of the credit to be refundable.

Section 529 accounts can be used to accumulate funds for college-related expenses. Appreciation of the investments within the account is tax-free for qualified distributions. If college funds are currently held in taxable accounts, it may make sense to shift these funds to a Section 529 account to reduce future taxable income.

Energy Incentives

For 2011 only, the Nonbusiness Energy Property Credit of up to 30 percent of the cost incurred is available for qualifying property, including windows, exterior doors, insulation, fans, furnaces, and water heaters.

Until 2016, the Residential Energy Efficient Property Credit is available for the installation of certain energy-efficient property, such as photovoltaic panels or solar water heaters.

Any tax advice contained in this article, unless expressly stated otherwise, was not intended or written to be used, and cannot be used, for the purposes of (i) avoiding tax-related penalties that may be imposed on the taxpayer under the Internal Revenue Code or applicable state or local tax law of (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

If you know of any one who would benefit from our services please forward this email to them.

Happy Holidays,

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