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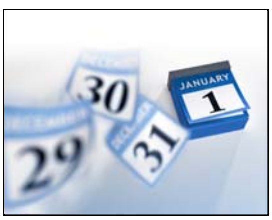
Now's The Time To Start Year-End Tax Planning

Care to reduce your family's 2007 IRS bill? Some opportunities expire on December 31, while others, though likely to be extended, won't continue unless both sides of the congressional aisle can agree on legislation this fall. Of course, taking these deductions or credits this year could make sense whether or not they continue to be available in the future.



Giving IRA distributions to charity. Suppose you own an individual retirement account and are at least age 70½—and thus are required to take annual distributions from the account. This year only (and this may not be extended), you could instead instruct your IRA trustee to transfer up to $100,000 from the account directly to a charity. This counts toward your required minimum withdrawal for 2007, and though you won't receive a charitable deduction, you'll avoid taking a taxable distribution. The money must go to a public charity—not to a donor-advised fund, for instance—and you need an acknowledgment from the charity. Spouses may contribute an additional $100,000, assuming they meet the other requirements.

Deducting sales tax. Perhaps you expect to itemize deductions for 2007 and deduct state and local sales tax instead of state income tax. This year, you can choose one or the other, but the sales tax option won't be available in 2008 unless Washington acts this fall. So if you're thinking about buying a big-ticket item such as a car or boat or spending on building materials for a major home renovation, you may need to buy by New Year's Eve.

Taking credit for energy efficiency. The same approach—buy in '07, not '08—might also be wise if you are looking at a furnace, heat pump, water heater, air conditioner, or other energy-efficient home improvement that qualifies for a residential energy credit. The credits may disappear after 2007. This is a credit that reduces your tax bill dollar for dollar, though the most you can claim during your lifetime is $500.

Depreciating sooner, not later. Yet another expiring provision affects business and restaurant owners. You must put leasehold improvements into service before January 1 in order to depreciate the cost over 15 years instead of a lethargic 39.

Preparing for the AMT. Other year-end tax planning involves the alternative minimum tax, or AMT. At issue this year and next is the amount of income that's exempt from the AMT. Unless Congress acts, the exemption for 2008 will be smaller than in 2007, and that could subject nearly 20 million more taxpayers to the AMT. But managing your AMT exposure can be difficult, and sometimes it's advantageous to do things differently when you fall under the AMT rules than when you don't. Consider the question of whether to pay fourth-quarter estimated state taxes this year or wait until January. While it normally makes sense to pay early and boost current-year deductions, that may not be true if you're subject to the AMT, because you'll lose the

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New Faces At FSA

I'm happy to announce that we have added a couple new members to the FSA team over the last month. These are names to remember as you call our office. Let me introduce you...

Amy Clason, eager to learn the financial planning profession, has joined us to help in the day-to-day operations of FSA. In addition to being our point person for FSA and Schwab forms, she joins Ann and Stephanie to assist you in answering questions about your account regarding deposits and withdrawals, Schwab's free Moneylink service, and others.

Brady Darrington has also joined FSA to help in both the operations and the client relations departments. He comes to us as a CPA having previously worked with an accounting firm. He will assume many responsibilities including the handling of Required Minimum Distributions (RMD), and supporting the client relations team. We are delighted to have Amy and Brady on board at FSA.

In this issue, we put together a few articles covering things to be aware of as you navigate through your earning years into retirement. From year-end planning to protecting yourself from internet hackers, you will find some very helpful tips to consider. As we at FSA focus on getting you to and through retirement, it's important to think about things such as what you should be doing now to prepare for retirement, when to take Social Security benefits, and many more. We'd love to chat about this with you.

Please contact us with changes to your financial situation and any questions that you may have. Happy Holidays!

Jim Joseph, CFP®
Vice President

Should You Delay Taking Social Security Benefits?

When should you start collecting your hard-earned Social Security? Conventional wisdom says the longer you delay, the better off you are. Yet maximizing your payment through waiting is just one way to get the most out of this key retirement income source.

In essence, the government pays you to wait for Social Security, and docks you for taking benefits early. You're allowed to begin collecting at age 62, but your monthly payment will be lower than your "full benefit," and it will stay that way (see "The Cost Of Starting Early"). To get more, you must wait until you reach the Social Security Administration's "full retirement age," which used to be 65—and still is, if you were born in 1937 or earlier—but is now inching upward, depending on your birth year. If you delay taking benefits beyond your specified retirement age, your payment will increase an extra 8% for each year you postpone benefits until age 70.

If you opt to start Social Security payments at 62, you'll lose up to 30% of the benefit you'd get by waiting until retirement age. Still, delaying payments may not always be possible or even desirable. You could need the money—if, say, you've been downsized at work, or your health has forced you to retire early. In such cases, starting Social Security at age 62 may be better than draining your savings while you wait several years.

If you have plenty of other income, starting benefits early could pay off if you invest the money. But there's no guarantee you'd come out ahead with this strategy. Your success depends not only on your return, but also on how long you live. Receiving several extra years of payments undeniably puts money in your pocket, and if you start benefits at age 70 rather than at 62, for example, you'll need to live a number of years before the higher monthly payments make up for the cash you gave up by waiting. On the other hand, investing your early benefits in anything but the most conservative assets could put some of your otherwise guaranteed retirement income at risk.

The lower your portfolio's returns, the better off you may be spending down your savings while you wait for benefits to kick in at age 70, suggests John Marotta of MoneyNews.com. If your savings only keep pace with inflation—and if you live past the age of 83.4—waiting for the age 70 payout will be a better deal. But if you earn 2.5% a year above inflation, the "break-even" age is 87.25 years, according to Marotta.

The Cost of Starting Early

Year of birth	Age When You Can Begin Full Benefit	Percent Of Full Benefit Lost By Retiring At 62
1937	65	20.00
1938	65 and 2 months	20.83
1939	65 and 4 months	21.67
1940	65 and 6 months	22.50
1941	65 and 8 months	23.33
1942	65 and 10 months	24.17
1943 - 1954	66	25.00
1955	66 and 2 months	25.84
1956	66 and 4 months	26.66
1957	66 and 6 months	27.50
1958	66 and 8 months	28.33
1959	66 and 10 months	29.17
1960 & later	67	30.00

Source: Social Security Administration

These days, of course, achieving those milestones isn't unusual. According to the American Society of Actuaries, a 65-year-old male now has a 50% chance of surviving until age 85, while the average 65-year-old woman has 50-50 odds of being alive at 88. For a couple in which both spouses are 65, there's a 50% chance one will make it to age 92.

Ultimately, your decision about when to begin Social Security benefits may hinge on how that income affects your financial plan and your family's health history. If you're nearing 62 and would like to discuss your options, please give us a call. ●

Hackers Monitor Passwords To Break Into Online Accounts—

Let's give you the bad news first: Hackers have already broken into financial accounts at several major brokerage firms—and the Securities and Exchange Commission says the problem could get worse. The good news: you can protect yourself from online attacks.

Merrill Lynch, E*Trade, Fidelity Investments, TD Ameritrade, Scottrade, and Vanguard Brokerage Services in March 2007 were victims of a massive attack. Hackers broke into investors' accounts, sold the holdings, and, in a "pump-and-dump" scam, used the proceeds to buy the stock of 15 companies. This is a variation on older online schemes that use mass e-mails containing false news alerts to spur buying and drive up prices. In the new version, the wave of buy orders using money from the hacked accounts artificially inflates the value of low-priced, volatile "penny stocks." The hacker owns the target stocks and sells at a big profit— sending the price plummeting—then wires the money to an untraceable account.

In the new pump-and-dump scams, the hacker steals your account user name and password using something known as keystroke monitoring software. This records all keystrokes entered on a computer, then emails the information to the hacker. It's easy for someone to install this software on public computers, such as those in libraries, airports and Internet cafes, but it can also end up on your home computer. A hacker might send you an e-mail message or a pop-up window saying you've won something; when you click to find out more, keystroke monitoring software may install itself on your computer. Then, the hacker just waits for you to enter the address of your brokerage firm's web site and watches the next several keystrokes—likely to be your user name and password.

Though investment companies

Smart Moves Five Years From Retirement

The notion of outliving your retirement income is not a happy one, and now, with tens of millions of baby boomers about to embark on decades of life after work, anxiety is running high. But with some wise preparation, you can create a retirement strategy that keeps you comfortable and financially secure.

Here are five critical moves to consider five years in advance of your retirement deadline.

1. Visualize your retirement. Steven Covey, author of *The Seven Habits of Highly Effective People*, famously suggested: "Begin with the end in mind." So before you crunch the first number, dig deep and imagine what you want from retirement. You might begin by making sure you want to retire at all. These days, more and more people are deciding to continue working, at least part time. And if you will leave work behind, how will you spend your time? Pursuing adventure travel? Kicking back at your lake cottage? Downsizing and moving to a new community?

If you're married, talk to your spouse about what she or he envisions. It's important that you get on the same page about your plans and goals. Once you've identified your objectives, determine what they'll cost and consider where your income will come from—Social Security, a company pension, distributions from your 401(k), rental property income, interest and dividends on other savings, perhaps an inheritance.

2. Examine your footprint. Most people underestimate what retirement will cost, but a simple cash-flow planning exercise can help set the record straight. Start with your core living expenses, and project those out for the next five years, adding in other goals that will require funding: helping a child with wedding expenses, for example, or a house renovation.

Next, consider what your expenses will be in retirement. It's likely the early years will be more active—and more expensive. A big cost that many pre-retirees don't see coming is health insurance, which can easily run $16,000 a year for a married couple until age 65, when Medicare kicks in. Thanks to health care costs and other rapidly increasing expenses, many financial experts now suggest retirees have as much income during retirement as when they were working.

3. Address your liabilities. There's good debt and bad debt. As you approach retirement, it's desirable to get rid of all debt, but certainly anything on which you're paying double-digit interest rates. That likely includes credit cards and possibly even car loans. For longer-term obligations, if you're paying between 5% and 7%, it may be okay, particularly if it's on a mortgage or home equity loan for which some of the interest may be tax deductible, but not always.

4. Max out your savings. You're in your peak earning years, and now is the time to push hard to save all that you can. Many experts recommend saving 20% of your income as a rule of thumb. At the very least, make the maximum allowable contributions to your retirement plan and, if eligible, to an IRA as well. This is your last, best chance to increase the size of your nest egg and your income during retirement.

5. Fine-tune your investment portfolio. One factor to consider during this crucial period is whether stock options, restricted stock, or company stock you own outright in taxable or tax-deferred accounts leaves you dangerously overexposed to the fortunes of your company. You may do well to diversify, to the extent you can, even if it generates taxable capital gains. But now is also the time to revisit your overall asset allocation with us. The risk of major losses on the eve of retirement argues for a more conservative approach, yet it's important for your portfolio to continue growing, now and during retirement.

We encourage you to review your current retirement plan and asset allocation in view of your goals for your years after work with us. Please call our office to set up a meeting.●

But You Can Avoid Becoming A Victim

aren't required to reimburse you for losses from fraud, in most cases, they will. But to avoid the hassle of trying to recover your money, it's relatively easy to protect yourself. It makes sense not to visit your online brokerage account from a public computer. At home, don't open email from senders you don't recognize, and don't click on links in pop-up windows. And consider installing anti-spyware software. These programs remove existing spyware—including stroke monitoring programs—and prevent the installation of new spyware.

Anti-spyware software is widely available. You can get Lavasoft's Ad-Aware, for example, both in a free version called Ad-Aware Personal and two retail verisons, Ad-Aware Plus and Ad-Aware Professional. Other well-known anti-spyware products include PC Tools' Spyware Doctor, Webroot Software's Spy Sweeper, Trend Micro's Anti-Spyware, and Sunbelt's CounterSpy.

But research these products carefully before you buy. Several anti-spyware companies have incorporated into their programs what may itself be a kind of spyware. This software doesn't steal your personal information, but it does record your online activity for advertising research. ●

Funding A Friend's Business Venture

Sandy thinks her friend Danny has a great business idea—an exciting, almost revolutionary new service. Now he wants her to make a significant investment in the corporation he's starting in exchange for a 10% ownership stake.

Sandy is tempted. Why not help a friend see his vision to fruition, claim partial credit for launching the wave of the future, and potentially earn extremely handsome returns?

Though such opportunities may feel like the chance of a lifetime, there's plenty that can go wrong. If there's any rule of thumb for investing in a private venture as a minority owner, it's that you should do it only with money you can live without.

Consider Danny's corporation. With no market for its stock, Sandy's capital is likely to be tied up for five to 10 years. That's how long it may take to build a company that can go public or attract an acquirer. During the incubation period, Sandy must be prepared to rely solely on other assets to meet her financial commitments.

Then there's the failure scenario. Unlike stock in a deteriorating public company that can usually be sold for something on the way down, private shares' lack of marketability means the investor is strapped in for the full ride to zero.

There's also the matter of taxes. Owners of S corporations as well as partnerships and most limited liability companies pay income tax on their share of the business's earnings, even when those profits aren't distributed. While she's waiting to get her investment back, Sandy might have to spend more money on taxes.

Still another concern is share of ownership. Assume things go swimmingly and the company seeks to expand. Can Sandy remain a 10% owner? Depending on the laws of her state and the articles of incorporation, she and other shareholders may, or may not, be entitled to first crack at any new shares the corporation issues, in the same proportion as current ownership. (Partnership and LLC operating agreements, when properly drafted, indicate whether owners have the right to maintain their original percentage of ownership.) Without that promise, Sandy's interest could be diluted and her share of the profits compromised.

Not just money but also relationships may be at risk. If the venture bombs, will Sandy blame Danny? Will their friendship suffer? If it does, will she mind? Even with a successful venture, resentment can arise if some of those involved feel others are prospering more than their contribution merits.

For all of these reasons, investing in a friend or relative's business can present problems from the get-go. Sandy should obviously research the investment before diving in. But her friendship with Danny could hinder her ability to objectively analyze his business plan and his ability to execute it, and could make it awkward to quiz him about the plan's marketing or financial assumptions.

Dream deals do sometimes come along. But what often separates successful capitalists from dreamers is finding the right reason to say "yes" or "no." Before you make an investment in a friend or relative's company, talk to us. We can help you analyze the numbers and evaluate the opportunity. ●

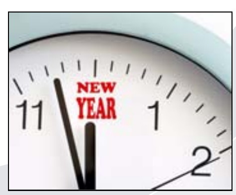
Start Year-End Tax Planning

(Continued from page 1)

deduction for state income taxes.

Cashing in AMT credits. One thing that no longer hinges on AMT status is the ability to utilize tax credits you may have received when paying alternative tax (because you exercised incentive stock options, for example). Thanks to a new rule, in effect for tax years 2007 through 2012, individuals with $25,000-plus of AMT tax credits that were generated more than three years earlier can generally take 20% of the overall credit each year. Old credits of up to $5,000 may be fully refundable this year. But your refund starts phasing out once adjusted gross income exceeds $234,600 if married filing jointly, or $156,400 if single.

Considering the kiddie tax. The so-called kiddie tax, which taxes a child's investment income above $1,700 at the parent's rate, currently applies only to children under age 18. Beginning in 2008, however, an obscure provision of the Small Business and Work Opportunity Act, signed into law in May, will extend the same rule to 18-year-olds, as well as to most full-time students ages 19 through 23 who do not earn more than half their support. As a result, many college students who are not subject to the kiddie tax this year will be in 2008, and the implications could be surprising. Suppose you gave appreciated stock to your daughter, intending that she would sell it in 2008, 2009, or 2010, when lower-income taxpayers owe nothing for their capital gains. That strategy may not work now. In fact, it could make sense to have your daughter sell the asset this year, when she may qualify for a 5% capital gains rate, rather than wait until later, when she might be subject to a tax three times that amount.



Seeing the big picture. Of course, taxes alone should never drive any investment decision. Still, with the kiddie tax now extending its reach—and other tax provisions in flux—it's more important than ever to take the long view of moves that could affect the tax liability of you or your children. We can work with your tax professionals to make sure that you minimize tax payments while moving toward your larger financial goals. ●

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