



Professional Service with a Personal Touch
Accounting • Tax • Financial Planning

CWR Monthly

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I've spent a great deal of time this summer reviewing and studying financial planning information and software. Even as I sit down to put together this newsletter I am in the process of studying for the Series 65 exam (Uniform Investment Advisor Law Exam). I hope to be ready to take this exam in about six weeks. Upon successful completion of the exam, I will register with the State of Georgia as a Registered Investment Advisor. Up until this time the necessity of registering with the state was unnecessary because under the De Minimis Rules, registration was not necessary for an investment advisor with fewer than 6 clients in the past twelve months.

It is my desire to really build this segment of my business, in order to help middle income clients develop functionally successful financial plans to accomplish their short term to long term financial goals. Because I don't believe that financial planning should be just for the wealthy, I am developing some affordable option packages designed specifically for the middle class client.

With the uncertainty of the future of social security and many employer provided retirement programs, I believe that it is critical for anyone that is within several to a few years from retirement to develop an individual retirement program that can provide the resources needed in retirement. To ensure that you can attain sufficient resources necessary to carry you through your retirement years, you will need to develop a well balanced financial plan.

Additional goals could also include insuring that you have sufficient resources to meet your family's educational needs, insuring that you have sufficient insurance to protect you and/or your family, an efficient savings program to prepare for a future major purchase or expense such as a house, a dream vacation, a child's wedding, or starting your own business.

Hopefully some of the questions in this newsletter will address some specific needs that you have and will assist you in your thinking about your own financial planning needs.

Charlie

CWR
Frequently Asked Questions

Tax

Q. Can I deduct my vehicle mileage expense when I go to the doctor?

A. Yes. Code section 213 allows a deduction for “transportation primarily for and essential to medical care”. You may choose either the actual cost of operating the vehicle or the optional standard mileage rate. The standard mileage rate for the medical expense deduction for 2005 is 15¢ per mile.

Q. What are the two most commonly overlooked itemized deductions?

A. In my practice, the most overlooked itemized deduction is the Ad valorem personal property tax deduction, followed closely by the foregoing of making non cash charitable deductions of unused household items, clothing, etc to charitable organizations like churches, Goodwill, The Salvation Army, etc. These two deductions could potentially make a significant difference in the tax liability on your tax return.

Q. How do I know if I should pay estimated tax payments?

A. The Internal Revenue Code is structured to obtain at least 90% of the final tax for current year through withholding and estimated tax payments. If you are self employed and you show a net profit in your business, it is highly probable that you should be making estimated tax payments throughout the year. The four scheduled current year installment payments are due April 15, June 15, September 15, and January 15 of the following year. The annual estimated payment (either through withholding and/or estimated payments that must be made is equal to the lesser of:

- a. 90% of the current year’s tax liability, or
- b. 100% of the tax for the previous year.

However, if the adjusted gross income in the previous year exceeds \$ 150,000, the estimated payments must be 110% of the previous year’s tax liability.

Q. What is the maximum gift amount that I can give this year to avoid incurring a gift tax?

A. In general, each calendar year any person may exclude the first \$ 10,000, adjusted for inflation, of gifts made to an individual donee. The amount for 2005 is \$ 11,000. However, the amount can be effectively doubled (\$ 22,000 for 2005) if the donor’s spouse consents and elects to split gifts under the gift splitting provision of the Internal Revenue Code.

Q. What is the “kiddie tax”?

A. The tax incentives to shift income from a parent to a minor child were nearly eliminated in 1986 when Congress enacted a “kiddie tax”. Generally, the “kiddie tax” provides that, with respect to a child under the age of 14 at year end, the unearned income of the child over a specified minimum amount is taxed at the parent’s highest marginal rate if this results in a higher tax than at the child’s rate. For 2005, a child who has net unearned income of \$ 1600 is subject to the “kiddie tax”. (Strategic income tax planning properly executed can eliminate this excessive tax).

Q. What are some useful reports that will help me in the management of my business?

- A. Some of the most useful reports that can be used in the management of any business are
- a. **Sales by Customer Report** – This report tells you which customers provide your business with the most revenue.
 - b. **Job Profitability Report** – This report tells you which jobs and/or customers have been the most profitable for your business and which ones have been the least profitable.
 - c. **Accounts Receivable Aging Report** – This report tells you how well you are collecting monies owed to you and which customers pay the most effectively. It also tells you which customers need added encouragement.
 - d. **Accounts Payable Aging Report** – This report tells you how effectively you are paying your bills.

Q. How can developing a cash flow projection help me manage my business more effectively?

- A. Cash flow is the heart of any business – particularly a small business. Having sufficient cash flow to meet the liabilities of your business not only keeps you in the good graces of your suppliers, but also, enables you to grow your business to the next level. By projecting your cash flow needs out over several weeks, you can easily visualize what precautionary steps you need to take in order to meet the upcoming cash flow demands on your business.

Q. How can running a QuickBooks® Expert Analysis report help you in the management of your business?

- A. A QuickBooks® Expert Analysis report will provide valuable meaning behind the numbers generated on your financial statements. The report can be run over multiple periods to provide comparative results over your selected period of time. QuickBooks® Expert Analysis develops this report by extracting financial data from your QuickBooks® program and looking at the following critical areas of your business:

- a. Liquidity
- b. Profits & Profit Margins
- c. Sales
- d. Borrowing
- e. Fixed Assets
- f. Employees

Q. What is a contingency Fund?

- A. A contingency fund (also known as an emergency fund) is a group of liquid assets (assets that are easily convertible into cash) that is set aside to be able to meet your financial needs during an emergency or a disruption of your income. The rule of thumb is that your contingency fund should equal from 3-6 months of your monthly expenses. The size of the contingency fund will depend upon the nature of your work and the variability of your income.

Q. What is dollar cost averaging?

A. Dollar cost averaging is a system of consistently investing a specific amount each month in your investment program. Because stock prices are always changing, some months you would pay more per share purchased, other months you would pay less per share. The theory behind dollar cost averaging is that your average price per share purchased would be less, over your investment horizon, than if you tried to “time” the market.

Q. How important is asset allocation to my investment portfolio?

A. Asset allocation means investing in different types of assets so as to have a diversified portfolio with the highest expected return at a given level of risk. Properly balancing the classes of assets that you invest in is thought to be more important than the individual assets that are in the portfolio.

Q. Why is investment asset diversification so important?

A. Diversification theory is based on the premise that market values of some assets tend to rise and fall together, whereas the market value of other assets move in opposite directions. Constructing a diversified portfolio that contains a mix of asset types whose value tends to balance each other out over a period of time greatly reduces your risk and optimizes your potential return in your investment portfolio.

Q. What are junk bonds?

A. A junk bond is the slang for a high yield bond. These bonds are corporate bonds characterized by low credit ratings and consistently higher than average interest rates. This is due to the greater amount of risk of default by the company issuing the bonds.

Q. What is the best way to reduce the risk in purchasing bonds?

A. By purchasing high quality bonds (A- to AAA bonds) that mature in no more than 5 years, the bonds are less likely to be subject to interest rate risk or default risk.

Q. What are some practical steps to implement a savings plan to reach my overall financial objectives?

A. The key to building wealth successfully through savings is to develop a plan. And while there are many ways to accomplish this goal, here is a method that many people find useful:

1. **Start as Soon as Possible**
2. **Forecast Your Cash Flow**
3. **Project Monthly Savings**
4. **Pay Yourself First**
5. **Contribute More Whenever Possible**
6. **Review Your Plan at the Same Time Each Year**

As this newsletter is preparing to go to press, congress is reviewing a proposal from the IRS that would change the automatic 4 month extension to file your 1040 tax returns to an automatic 6 month extension to file. The rationale behind this recommendation is that it would save hundreds of man hours of reviewing requests for an additional 2 month extension to file after the automatic 4 month extension ends. And while many things that the IRS proposes is not in the best interest of the taxpayer, this recommendation seems to offer a win – win situation.

Because income tax planning should be a part of your overall strategic financial plan of exchanging tax dollars for investment dollars, any proposal that allows you the opportunity to sufficiently gather the information to put together an accurate tax return capitalizing on the tax reduction strategies available to the taxpayer, is a victory for the taxpayer. Not only will this proposal save valuable tax dollars, but it will provide added insurance that the taxpayer, who needs additional time, will be able to prepare a more accurate return.

In essence, this newsletter has been about saving money. The questions presented revolved around the idea of ways to maximize the dollars you have available to you and to capitalize on the techniques that have proven very successful over the long term. It is my hope that some of the questions and answers presented here will find relevance in your own circumstances.

Til next time,

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