CIA Report

Financial Intelligence

Capital Intelligence Associates
Arthur Kraus, ChFC, CLU, CAP
Mitchell Kraus, CFP®, CLU, ChFC
1250 6th Street, Ste. 300
Santa Monica, CA 90401
310-820-9797
akraus@capintelligence.com
www.capintelligence.com

If you have any questions regarding how the new tax laws will effect your planning, please do not hesitate to give us a call.

January 2013

Happy 2013 from CIA

2013 has opened with a roar, at least from a Financial Planning prospective. Congress has managed to put together a tax package to avoid the "fiscal cliff" but pushed back the decision on spending cuts a few months. We wanted to discuss a few of the provisions that effect the most of you in this newsletter.

Social Security Payroll Tax
For those of you who are salaried, you might have noticed a decrease in your take home pay. Traditionally the tax has been 6.2%. During the Great Recession it was lowered to 4.2%. Since congress didn't act on it, it automatically increased back to 6.2% on January 1st. For those of you who are self-employed, this will raise your taxes by 2% this year too.

Individual Tax Rates
Besides the social secuirty tax increase, your tax rate didn't change unless you make more than $400,000 ($450,000 if you're married). If so, your federal tax bracket just went up an additional 4.6% to 39.6% above this level.

Alternative Minimum Tax
The precursor of the AMT was set up by congress in 1969 and updated in 1982. Congress never adjusted it with inflation causing a panic every year that lower-income earners would be effected by a tax only meant for higher-income earners. Congress finally has adjusted this for inflation automatically, so while it will mean less ratings for the news programs, it will make tax planning easier.

Capital Gains
The top capital gains rate went from 15% to 20% for people in the top tax bracket.

Estate Tax
Like the AMT, it has been nearly impossible to predict where the estate tax would be a few years out. Congress has set it at $5 million and indexed it for inflatin ($5.12 million in 2012). While more complicated, the simple way to look at it is if you die with over $5 million plus inflation (or $10 million if you are married), the government will tax your estate for approximately 40% of the overage (less what is going to charity).

Phaseout of itemized deductions and personal exemptions
If you make more than $250,000 ($300,000 if married), the amount you can deduct off your taxes starts to lower. This means you might not get the full deduction for items such as mortgage interest or charitable donations.

Energy Tax Extenders
There are a lot of credits the government has extended through the year. If you are looking at solar panels, electric cars or just insulating your house, the federal government has many programs to help cover some of the cost.

Conclusion
This is just a brief overview of some of the changes that effect the most of our clients. If we haven't looked at your plan in a while, it might be worthwile sitting down and reviewing your plan to make sure it's up to date with all the current rules and regulations.

And also...
Thank you all for your kind wishes regarding the passing of Mitchell's son Nicholas. Our family is healing slowly, but you should know Mitchell is back to work full time and looking forward to helping each of you work towards your goals.

Real-life Financial Tips for Different Generations

Do you remember The Game of Life®? In Milton Bradley's popular board game, players progress through life stages making decisions that affect their prosperity. Like those players, today's generations face financial decisions with lasting effects. Here are some tips for staying focused despite life's ups and downs.

Generation Z (teens to early 20s):

Accustomed to instant gratification, the "Digital Generation" may need to recognize that financial success takes diligence and patience. Consider sharing the following advice with the Gen Zers in your life:

Live within your means. Your first paycheck provides the chance to learn valuable lessons, such as creating a budget and spending less than you earn.

Build a saving habit. You have one powerful advantage over other generations--time. Why not make saving automatic and direct a part of your paycheck into a savings or investment account?

Understand credit and credit reports. A good credit history helps you get a car loan and a mortgage, but a bad one can ruin your borrowing chances for years. Reviewing your credit report regularly can help you manage your finances and protect your identity.

Generation Y (20s and early 30s):

In this group, you could be juggling your first "real" job, college loans, marriage, a first home, and young children. Three points for you:

Risk management isn't just for companies. Save 6 to 12 months' worth of living expenses in a savings account for unexpected emergencies. Review your insurance, and at a minimum, have health and property coverage. Also consider disability insurance, which helps pay the bills during a health crisis.

Start saving for retirement ... Like Generation Z, time is your strongest ally. Participate in a retirement savings plan at work, if offered, and if your employer offers a match (free money!), contribute enough to get all of it. If you don't have a plan at work, open an individual retirement account (IRA) and invest what you can (up to annual limits).

... And your children's college. In 18 years, a four-year degree could cost as much as several hundred thousand dollars. Give your children a head start by saving now.

Generation X (30s and 40s):

Home ownership, older children, a career in full swing--if you're in this group, your finances may take a back seat to life's daily demands. To help stay focused, consider the following:

Retirement savings trump college savings. Don't risk your future to pay for your children's entire education. There's no financial aid office in retirement.

Don't neglect your health. Are you experiencing new aches and pains? At this age, medical issues can begin to surface, demanding time, energy, and financial resources. Take care of yourself, and before an emergency arises, review your health and disability coverage.

Create a will, if you don't already have one. This important document can help ensure your children are cared for and your assets are distributed according to your wishes. Medical directives should also be established now.

Baby boomers (50s and 60s):

If you're in this age group, you may have both adult children and elderly parents who need assistance, as well as an impending or current retirement. Pointers for you include:

Shift your retirement savings into high gear. People over 50 benefit from higher savings limits on 401(k)s and IRAs. Strive for the maximum.

Visit a financial professional. When should you tap Social Security and your retirement savings? How should you invest your assets to potentially provide a lifetime of income? A financial professional can be a critical coach at this time of your life.

Investigate long-term care insurance. These policies help protect your family's assets from the potentially devastating effects of long-term care. The older you get, the more expensive these policies can be.

Retirees:

The Game of Life ends when players reach retirement, but not so in real life--you still have years ahead of you. Consider the following:

Review the basics. Whether you plan to travel to exotic locales or play board games with your grandchildren, a key to happiness is living within your means. Develop a realistic budget and don't exceed your spending limits.

Manage your income stream. A financial professional can help you choose vehicles and determine an investment strategy to help ensure you don't outlive your assets.

Plan for your family's well-being. A properly crafted estate plan can help you ensure that your wishes are carried out--for both your and your family's peace of mind.

CAPITAL INTELLIGENCE ASSOCIATES

How to Give Wisely and Well

These are a few of the organizations and agencies that publish reports and charity ratings, and/or give useful tips and information to consumers on choosing a charity and giving wisely:

- ***Better Business Bureau's BBB Wise Giving Alliance, www.bbb.org***
- ***Charity Navigator, www.charitynavigator.org***
- ***CharityWatch, www.charitywatch.org***
- ***Federal Trade Commission, www.ftc.gov***

Giving to charity has never been easier. You can donate the old-fashioned way--by mail--but you can also donate online, by text, or through social networking sites. According to the National Center for Charitable Statistics, over 1.4 million nonprofit organizations are registered with the IRS. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are some tips that can help you become both a generous and wise donor.

Choose your charities

Choosing worthy organizations that support the causes you care about can be tricky, but it doesn't have to be time-consuming. There are several well-known organizations that rate and review charities, and provide useful tips and information that can help you make wise choices when giving to charity (see sidebar). To get you started, here are some questions to ask:

- *How will your gift be used?* It should be easy to get information about the charity's mission, accomplishments, financial status, and future growth by contacting the charity by phone or viewing online information.
- *How much does the charity spend on administrative costs?* Charities with higher-than-average administrative costs may be spending less on programs and services than they should, or may even be in serious financial trouble. Some charities who use for-profit telemarketers get very little of the money they raise, so ask how much of your donation the charity will receive.
- *Is the charity legitimate?* Ask for identification when approached by a solicitor, and never give out your Social Security number, credit card number, bank account number, account password, or personal information over the phone or in response to an e-mail you didn't initiate. There's no rush--take time to check out the charity before you donate.
- *How much can you afford to give?* Stick to your giving goals, and learn to say no. Legitimate fundraisers will not try to make you feel guilty, and will be happy to send you information that can help you make an informed decision rather than pressure you to give now.

Harness the power of matching gifts

Many employers offer matching gift programs that will match charitable gifts made by their employees. You'll need to meet certain guidelines--for example, your employer may only match your gift up to a certain dollar limit--and the charity may need to provide information. Check with your employer's human resources department or the charity to find out how you can maximize your donations through a matching gift program.

Put your gifts on autopilot

If you're looking for an easy way to donate regularly to a favorite charity, look into setting up automatic donations from a financial account. When donors contribute automatically, the charity benefits by potentially lowering fundraising costs and by establishing a foundation of regular donors. And you'll benefit too, because spreading out your donations throughout the year may enable you to give more, and will simplify your record keeping.

Look for new ways to give

Although cash donations are always welcome, charities also encourage other types of gifts. For example, if you meet certain requirements, you may be able to give stock, direct gifts from your IRA or other retirement account, real estate, or personal property (but check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances). You can also volunteer your time, using your talents to improve the lives of others in your community. And taking a "volunteer vacation" can be a fun way to involve your family and meet other people across the country or world who share your enthusiasm for a particular cause.

Use planned giving to leave a legacy

You can leave an enduring gift through your estate. For example, you might leave a will bequest, give life insurance, or use a charitable gift annuity, charitable remainder annuity trust, or charitable unitrust that may help you give away the asset now, while retaining a lifetime interest--check with your financial or tax professional regarding any potential estate or tax benefits or consequences.

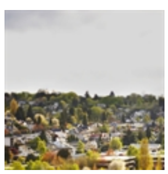
Keep good records

If you itemize when you file your taxes, you can deduct donations you've made to a tax-qualified charity, but you may need documentation. Keep copies of cancelled checks, bank statements, credit card statements, or receipts from the charity showing the charity's name and the date and amount of the contribution. For donations or contributions of $250 or more, you'll need a more detailed written acknowledgment from the charity. For more information and a list of requirements, see IRS Publication 526, Charitable Contributions.

Capital Intelligence Associates
Arthur Kraus, ChFC, CLU, CAP
1250 6th Street, Ste. 300
Santa Monica, CA 90401

Arthur D. Kraus and Mitchell S. Kraus are registered representatives with and securities offered through LPL Financial, Member FINRA/SIPC

This information is not intended to be a substitute for specific individualized tax advice. We suggest that you discuss your specific tax issues with a qualified tax advisor.



Should I be worried about recent municipal bankruptcies?

Municipal bonds have received a lot of attention recently, in part because their tax advantages could become more valuable in 2013. However, they also have come under scrutiny because of some widely publicized bankruptcy filings by local governments.

Economic problems, lower investment returns, and cuts in federal aid have led to an increase in the number of local governments filing under Chapter 9 of the U.S. bankruptcy code. They included the single largest U.S. municipal bankruptcy on record (Stockton, California, one of three municipalities in the state to file for bankruptcy in a single month).

Despite the increased pace of filings, muni bankruptcies are still extremely rare. From June 2011 to June 2012, only 17 municipalities or local government entities filed for bankruptcy in federal courts. Compare that to the 9,285 Chapter 11 filings by businesses during the same time.*

One way to check on your muni holdings is to use information available through the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA®) database, available at http://emma.msrb.org . You'll need to know the bond's CUSIP number; this nine-digit identifier can be found on a trade confirmation or brokerage statement. The information available generally includes the revenue sources pledged to repay a bond and whether any bond insurance, letter of credit, or other guarantees have been provided for its repayment.

The database doesn't include all municipal offerings, and though it's updated yearly, information can become outdated. The bond's current credit rating from one of the three major ratings agencies can suggest its most recent status. However, remember that a high credit rating doesn't reflect or guarantee a bond's market value or liquidity.

*According to the Administrative Office of the U.S. Courts.