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SPRING 2014 – NEWSLETTER

INSIDE THIS ISSUE

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PROFITABLE

Aggregate ***earnings per share*** of the S&P 500 companies are projected to ***increase by +18%*** in 2014 over ***actual earnings*** from 2013.

(Source: S&P)

MORE GOING IN THAN COMING OUT

*An average high income American couple that retired in 2010 will pay $765,000 of **lifetime Social Security taxes*** but receive just $693,000 of ***Social Security benefits,*** i.e., for every ***$1 paid in taxes,*** *the couple will receive **$0.91 in benefits.***

(Source: Urban Institute)

GIVE IT AWAY

The ***gift tax annual exclusion*** per donee (i.e., recipient) ***remains at $14,000*** in 2014. The $14,000 annual exclusion is in addition to the ***$5.34 million lifetime exemption*** from gift taxes.

(Source: IRS)

Are Early IRA Withdrawals Ever A Good Idea?

IRA owners aren't required to withdraw IRA assets in their sixties, yet some retirement planners see merit in doing so – especially if a traditional IRA is large and its owner is wealthy. Reducing a sizable IRA balance before age 70½ might help a retiree lower his or her taxes in later life.

How, exactly? As Required Minimum Distributions (RMDs) from IRAs amount to taxable income, drawing down a traditional IRA's balance before age 70½ will result in smaller RMDs in the future with smaller associated tax burdens. The tax on an RMD from a six-figure IRA may be big enough to send a 70-year-old into a higher tax bracket – the larger an IRA is after age 70, the greater the risk. IRA owners in their early or mid-sixties may be in a comparatively low tax bracket, with less chance of facing such a tax headache upon an IRA withdrawal.

An affluent IRA owner retiring in his or her early sixties could choose to live off IRA withdrawal(s) and delay claiming Social Security benefits (meaning greater Social Security income in the future). If retirement income is available from alternate sources, the withdrawn traditional IRA assets could be rolled incrementally into a Roth IRA for further tax-deferred growth and eventual tax-free withdrawals. Roth IRAs do not require RMDs until after the death of the original owner.

(Source: Marketing Library, 2014)

6 Signs You Should Rethink Your Life Insurance

[1] The number of people who depend on your has changed

Let's say you're married and have a policy with your spouse listed as a beneficiary. If you have children, you should consider adding them as contingent beneficiaries, which makes them the backup beneficiaries in case something happens to you and your spouse at the same time. You might also want to get coverage for a larger amount to, say, provide for the expected cost of their college educations. This is not as simple as increasing coverage on the policy you already have—it might be cheaper for you to buy a separate policy for the additional amount.

On the flip side, if a dependent, such as a child, becomes self-sufficient—say, your youngest graduates from college and gets a job—or, God forbid, in the event a dependent on your plan passes away, you can lower the amount of your "death benefit," which is the amount that would be paid out in the event of your death, or reevaluate how much insurance you need.

[2] Your child becomes disabled

Some parents take out a term policy to be sure to provide for their children until they become self-sufficient. But if circumstances change, and a child becomes disabled, the parents may want instead to look into a permanent policy that will provide for the child no matter when you should pass away. The longest term policies typically last 30 years, so if you have a disabled child who is 10, and you're only 45, you may want a permanent policy, because it will provide a benefit to him or her even if you pass away at 76 or later.

[3] You've taken on significant debt, such as a mortgage or student loan.

The original reason you might have taken out your life insurance policy was to provide for your dependents if you were to pass on. But debt that you take on can become their burden in the event of your death. For that reason, if you take out a mortgage or a student loan, you'll want to consider whether you should increase your coverage accordingly. Follow the same strategy as above, in which you consult your financial planner or an independent insurance agent, or comparison shop online, to find out whether it makes more sense to purchase an additional policy or replace the existing one with a larger benefit.

[4] You pay off your mortgage

Suppose you bought a home and took out a 30-year mortgage on it, and also purchased an accompanying 30-year term life insurance policy so your family would be able to pay off the debt if you died. However, after a number of years of diligently paying extra principal each month, you've paid off your mortgage in 18 years. Congratulations! The only thing is that you might now have an unnecessary life insurance policy. Consider the rest of your financial picture to see if there are other needs for life insurance—if you find none, you might want to cancel that policy or reduce the benefit amount and save the extra bucks.

[5] You bought your policy before 2009

Why 2009? That was the year that insurance companies were required to switch to 2001 mortality tables. Before that, they were relying on mortality tables from 1980. While this is a rather morbid-sounding topic, it actually can have a big effect on the price of your policy. Here's why: Between 1980 and 2001, mortality improved—and since people are living longer, they're also paying into their insurance policies longer, and that delays the moment that the insurance company has to pay out.

Don't Overlook These 6 Tax Deductions

No one likes leaving money on the table -- especially when it comes to dealing with the IRS.

According to Jackie Perlman, senior analyst with The Tax Institute at H&R Block, many taxpayers choose to take the standard deduction instead of itemizing because they wrongfully assume it won't be worth their time. "Many people believe they can't or shouldn't itemize, but they need to do the math. Most of the time, the deductions add up to much more then they think," she says. Some filers also think itemizing will increase their chances of being audited, which Perlman says could mean leaving money on the table. "There is some higher risk with itemizing that you will be audited, but the whole percentage of people being audited is pretty small. And as long as you have receipts and substantiations you will be fine."

According to H&R Block (HRB), about 1 in 5 people who completed their taxes on their own left an average amount of $450 in unclaimed money. *Here are six commonly overlooked tax breaks for itemizers:*

Child Dependent Care Credit. Millions of parents rely on child care when they are at work, which doesn't come cheap. Thankfully, there is a credit for expenses (generally a percentage of the amount of work-related expenses) for the care of a qualified dependent.

"This is a tricky credit; it's done on a sliding scale from 35% to 20% of those expenses to get a credit on your return. It's complicated, which is why some parents skip it," says Perlman. Keep in mind that this tax break also applies to summer camp. "If you send kids to summer day camp so you or your spouse can work, you can deduct that, up to 35% if you have two children," says Lisa Greene-Lewis, CPA and tax expert for TurboTax.

(Continued on Back Page)

The upshot? Monthly premiums are now lower as a result. Since you cannot renegotiate your existing policy, you should shop around to see if you can get a lower quote for the same policy. Even though you're older now than when you bought your current policy, you might still get a cheaper rate with a new policy now. But always make sure that your new policy is in place before canceling the old one.

[6] Your insurance company has been getting a lot of bad press.

If you have doubts about the company holding your policy, investigate its stability. Find out whether the company's financial rating by places like A.M. Best, Fitch or Moody's has recently been downgraded (this can be done easily by doing a web search for the company's name and the word "rating"). If the rating hasn't been downgraded, that probably means that while the company is enduring some bad publicity, its ability to pay cash out on your policy is not in question. Please give Doug, Steve or Jenn a call to discuss your life insurance questions.

(Source: MSN Business, Feb. 2014)

Spending

Our government's projected **budget deficit** for fiscal year 2014 is **$750 billion.** For **every $1** of **expected tax revenue,** our government anticipates **spending $1.25.**

(Source: Treasury Department)

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6 Tax Deductions *(Continued from Page 3)*

Sales Tax Deduction. If you live in a state that does not collect income tax (there are currently seven), you can deduct sales tax you've paid over the tax year, which can bring significant savings on big-ticket items. "If you made big purchases like a car or a new home appliance, you can deduct that," says Perlman.

Earned Income Tax Credit. This credit is applied to low to moderate income filers and can be worth up to $6,044. "This credit can be huge since it can be a big percentage of their income. Your eligibility is based on income, amount of children and marital status," says Greene-Lewis. According to the Tax Policy Center, the credit amount equals a fixed percentage of income from the first dollar of earnings until the credit's limit. The percentage and the maximum credit depends on the number of children. Families with three or more children may receive a credit of up to $6,044 in 2013, $5,372 for families with two children, $3,250 for families with one child and $487 for childless filers.

Lifetime Learning Credit. Older filers often wrongly assume that tax breaks regarding higher education only apply to college-age students. "If you decide to go to graduate school or take some education courses to enhance your skills, as long as it's from an accredited institution, you can claim the lifetime learning credit," says Perlman. The credit can be worth up $2,000 for qualified education expenses paid for all eligible students. "To get that full amount, you need to be paying tuition up to $10,000 a year, but even if you aren't paying that much you will still get something. You don't have to be a 20-year-old undergrad," she says.

Mortgage Points. Most homeowners are aware the interest on their mortgage can be deducted, but Greene-Lewis says many overlook deducting their mortgage points. "If you purchased a house and paid points, you can deduct all of it," she says. "If you refinanced, you can still deduct the points, but it's divided up over the life of the loan." However, if the acquisition debt is more than $1 million or your home equity debt exceeds $100,000, you cannot deduct all your points.

Job Search Costs. Any costs incurred during your job hunt, including resume preparation, travel for interviews, career coaching and use of outplacement agencies are deductible as long as you itemize. "If it directly relates to you trying to get employed in your current field you can deduct it," says Greene-Lewis. Keep in mind that in addition to other miscellaneous itemized expenses, job-search costs must exceed 2% of your adjusted gross income before they produce any tax savings.

(Source: Fox Business, 2014)