

# tax & investment newsletter

January 2012

MONTGOMERY TAYLOR, CPA, CFP

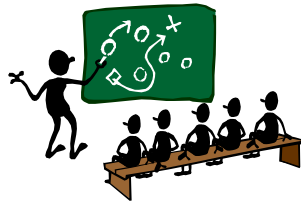
Obstacles are those frightful things you see when you take your eyes off your goal.  
~Henry Ford

## Monty's Opening Thoughts...

### HAPPY NEW YEAR!

For this first new month of this New Year, here's a nifty assortment of things you might invest some action in...

**NEW YEAR STRATEGIES:** This is a Special New Year issue, focused on specific, practical strategies for "getting traction" right now, in the new year, with emphasis on getting your financial life in sync with your goals and objectives.



On page three, **Rob Kirby** gives you his words of wisdom and the details of getting a tax-free pay raise that your boss may actually agree to—even in tough economic times. And, speaking of wisdom, Rob is truly an ingenious and creative tax-saving guru. This being the case, I've happily enlisted Rob to be the official reviewer of our firm's tax engagements.

On page four, **Eric Gullotta** generously lays out a solid checklist of steps you must take to secure your financial foundation and get your estate in order. I would even say that by doing the things on Eric's checklist, you will be proving to your loved ones that you truly love them. Let me tell you, after years of helping people through the process of winding up the estate of their dearly departed loved one, people who put their estate in order are blessing their heirs—big time!

On page six, **Gary Liess** points out how you can obtain a predictable rate of growth on part of your portfolio in a secure manner which will also give you peace of mind. One client told me she heard Gary's talk at the Open House and was pleasantly surprised with several "Ah-Ha" moments. She'll be meeting with

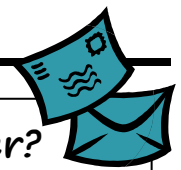
Gary on this one... perhaps you should too.



On page eight, I share with you some thoughts from **Tony Robbins** and **T. Harv Eker**. It's about revising your mind's money files in order to achieve the lifestyle you desire. Anything is possible for those who take command of their destiny. Start today. Better yet, start right now!

Warm regards, *Monty*

## Free Newsletter?



Technically, **this monthly newsletter is NOT FREE.** We mail it to our clients as part of the professional services provided. About 90% of the newsletters mailed out are for current clients. The other 10% are prospective clients—receiving our newsletter as a means of "getting to know us" on a free, complimentary basis. This complimentary arrangement is only for 12 months; after that, if you have not become a client, you'll be dropped from our distribution list. So, **if you're not currently a client, you may want to become one so you will continue receiving this valuable source of financial strategies each month.**

Also, if you know someone who may value our services, you can call us and add their name to the list—free for 12 months.

(Note: We only distribute the newsletter by regular mail—not email.)



## Inside This Issue

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## A New Year's Message From The Million Dollar Dog

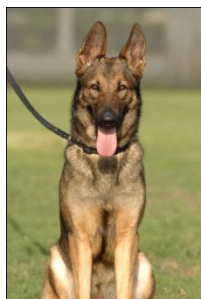


### How to handle things that stress you out:

If you can't bite it, chew on it, eat it or chase it, go potty on it. **About your "territory:"** you need to inspect it, mark it and defend it everyday. Take nothing for granted. **About promotion for small business:** the smaller you are, the bigger your bark has to be. **About sloth:** bones won't bury themselves, bubba. **About justice:** there should be a law against bushy-tailed little dogs that can run up trees. But there isn't. Can't waste much time obsessing about advantages some other kind of critter has. Gotta work with what ya got. **About action:** there's always something you can do *now*. Even if it's taking a nap.

~ Borrowed from Dan Kennedy  
www.DanKennedy.com

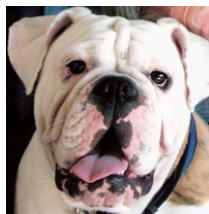
And, since we're talking about dogs here...



**Monty** has a German Shepard named Sidney. She is a sweet pooch who flunked the police academy—no kidding.

**Barbara** has an English Bulldog named Boomer. His intelligence is questionable, but he is very loving and will

do anything to make you laugh. Just give Boomer a belly rub and a squeaky toy and he'll be your friend forever.



## Monty's On Our Side and We Trust Him

Monty really works hard to make sure that you pay the least amount of taxes. He's

on your side, not the government's. He's always trying to make sure that, despite the economy, we're not going to lose as much money as we would be if we were investing elsewhere. He really tries to help people earn money, not lose money with their retirement funds and investments.

Our previous accountant was very impersonal – he was just straight to the point. **Monty's** been completely different from that. He's very good at what he does crunching numbers, but he's also very personable. His staff is very detailed. They were able to find discrepancies in our previous tax returns, and they found us more money. They were able to redo the old tax returns and fix the flaws.

You can see that Monty's very sincere about wanting to help his clients and do the best for them. He's constantly taking courses and honing his skills. He's always on the lookout for ways he can save his clients' money and build their portfolios. Like Monty says – I've got my money and my mother's money invested too – we're all in this together.

Monty has been a lifesaver. He's always glad to see us. He gets to know his clients on a personal basis, and we know him well enough to really trust him.

Everyone on the staff has been very friendly and nice to work with . . . on the phone and in person. When we come in we feel like you folks really care; you take care of things and we have a feeling of trust. We're very happy. All our needs are being met.

~Kurt and Esther Hofmeister, Woodburn, Oregon  
(Testimonial from one of our CPA firm clients.)

Have you checked out Monty's blog lately?  
<http://blog.taxwiseadvisor.com>



"So a house salad for the lady, and for the gentleman, whatever has fallen on the floor."

# Tax Strategy of the Month

“Here’s an idea I think will save you money!”



## The IRS sanctions the newest “unusual” excludable fringe benefit

By Rob Kirby, EA, CFP, MBA

We have assisted several clients in negotiating a fringe benefit/reimbursement policy that is tax-deductible to the company, not taxable to the employee, and the employee received “compensation” with no payroll taxes levied on either party. It is important to structure the reimbursement properly to avoid the risk that the IRS would consider the reimbursement to be “wages in disguise.” But in tight economic times like these it may be easier to negotiate excludable fringe benefits than a raise.

The most popular excludable fringe benefits are health insurance, group term life insurance, and dependent care benefits. Others include medical reimbursement, educational assistance, transportation, on-the-job meals, holiday gifts, and retirement planning services. In addition, under

proper circumstances, employers can reimburse employees for use of their car, travel and entertainment, home office expenses, depreciation on personal equipment used for working at home, and now the IRS sanctions cell phones as an excludable fringe benefit.

**IRS Notice 2011-72** provides guidance on the treatment of employer-provided cell phones as an excludable fringe benefit.

**Employer Provided Phone** - When an employer provides an employee with a cell phone primarily for noncompensatory business reasons, the business and personal use of the cell phone is generally nontaxable to the employee (as a working condition fringe benefit for the business portion and a *de minimis* fringe for the personal use). The IRS will not require recordkeeping of business use in order to receive this tax-free treatment.

An employer will be considered to have provided an employee with a cell phone primarily for noncompensatory business purposes if there are substantial reasons relating to the employer’s business, other than providing compensation to the employee, for providing the employee with a cell phone. Examples of possible substantial noncompensatory business reasons include:

- The employer's need to contact the employee at all times for work-related emergencies,
- The employer's requirement that the employee be available to speak with clients at times when the employee is away from the office, and
- The employee's need to speak with clients located in other time zones at times outside of the employee's normal work day.

A cell phone provided for the following reasons will **not** be considered as provided primarily for noncompensatory business purposes:

- To promote the morale or good will of an employee,
- To attract a prospective employee, or
- As a means of furnishing additional compensation to an employee.

**Employer Reimbursement for Cell Phone Expenses** – Although Notice 2011-72 does not cover the situation where an employer reimburses the employee for cell phone expenses, the IRS did issue a memo on September 14, 2011 to all field examination operations bringing this issue and Notice 2011-72 to the attention of the audit staff (Control Number SBSE-04-0911-083).

Where employers reimburse employees for business use of their personal cell phones, tax-free treatment is available without burdensome recordkeeping requirements. However, the employee must maintain the type of cell phone coverage that is reasonably related to the employer’s business needs, and the reimbursement must not exceed the employee’s actual cell phone expenses. Additionally, the reimbursement for business use of the employee’s personal cell phone must not be a substitute for a portion of the employee’s regular wages. IRS examiners are directed to closely scrutinize arrangements that replace a portion of an employee’s previous wages with a reimbursement for business use of the employee’s personal cell phone and arrangements that allow for the reimbursement of unusual or excessive expenses.

The guidance does not apply to the provision of cell phones or reimbursement for cell-phone use that is not primarily business-related, as such arrangements are generally taxable.



# Legal Strategy of the Month

“Here’s an idea I think will save you money!”



## Estate Planning Checklist for 2012 – Your New Year’s Resolution Is Here!

By Eric Gullota, Attorney at Law, CPA, MS (Tax)\*

### Have you ever thought about making an estate planning checklist? Estate planning is a

task that people tend to put off, as any discussion of “the end” tends to be off-putting. Yet if you leave the world without your financial affairs in good order, you risk leaving your heirs some problems.

Since you do not want your heirs to have to deal with onerous financial issues when you pass away, here are some estate-planning items you may want to make part of your New Year’s resolutions (instead of joining another gym!)

**Create a will if you don’t have one.** Well, this seems pretty basic. Who doesn’t have a will? You would be surprised. Some tremendously wealthy people have passed away without leaving a valid will. Pablo Picasso left no valid will. Neither did Howard Hughes.

It is startling how many people never get around to this, not even to the point of buying a will-in-a-box at a stationery store or setting one up online.

A recent Lawyers.com survey of 1,022 Americans found that just 35% had wills. (For that matter, only 18% had some kind of trust.)

A really good will drafted with the guidance of an estate planning attorney may cost you several hundred dollars to create, but it may save your heirs from some expensive headaches linked to probate and ambiguity.

**Complement your will with related documents.** Depending on your estate planning needs, this could include some kind of trust (or multiple trusts), durable power of attorney for financial affairs, an advanced health care directive and other items.

An advanced health care directive makes your wishes known when it comes to life-prolonging medical treatments, and it takes the form of a directive as well as authorizes another party to make medical decisions for you (including end-of-life decisions) if you become incapacitated or otherwise unable to make these decisions.

**Review your beneficiary designations.** Who is the beneficiary of your IRA? How about your 401(k)? How about your annuity or life insurance policy?

If your answer is along the lines of “Mm ... you know ... I’m pretty sure it’s...” or “It’s been a while since ...”, then be sure to check the documents and verify the designated beneficiaries.

Beneficiary designations on retirement accounts and life insurance policies usually take priority over bequests made in wills and living trusts. So if you long ago named a child now estranged from you as the beneficiary of your life insurance policy, he or she will receive the death benefit when you die, regardless of what your will states.

Time has a way of altering our beneficiary decisions. This is why some estate planners recommend that you review your beneficiaries every two years.

### **Create asset and debt lists.**

Does this sound like a lot of work? It may not be. You should provide your heirs with an asset and debt “map” they can follow should you pass away, so that they will be aware of the little details of your wealth.



- One list should detail your **real property and personal property assets**. It should list any real estate you own, and its worth; it should also list personal property items in your home, garage, backyard, warehouse, storage unit or small business that have notable monetary worth.
- Another list should detail your **bank and brokerage accounts**, your **retirement accounts**, and any other forms of investment along with any **insurance policies**.
- A third list should detail your credit card **debts**, your mortgage and/or HELOC, and any other outstanding consumer **loans**.

**Think about consolidating your “stray” IRAs and bank accounts.** This could make one of your lists a little shorter. Consolidation means fewer account statements, less paperwork for your heirs and fewer administrative fees to bear.

**Let your heirs know the causes and charities that mean the most to you.** Have you ever seen the phrase, “In lieu of flowers, her family requests that donations be made to ...” Well, perhaps you would like to suggest donations to this or that charity when you pass. Write down the associations you belong to and the organizations you support.

There’s another reason that you may want to do this: some non-profits do offer accidental life insurance benefits to heirs of members. *(Continued, next page.)*

\*The Law Office of Eric S. Gullota is a separate and independent entity with an association with Montgomery Taylor.

## Legal Strategy of the Month, cont...

□ **Select a reliable executor.** Who have you chosen to administer your estate when the time comes? The choice may seem obvious, but consider a few factors.

Is there a stark possibility that your named executor might die before you do? How well does he or she comprehend financial matters or the basic principles of estate law? What if



you change your mind about the way you want your assets distributed – can you easily communicate those wishes to that person?

Your executor should also know exactly where your estate planning documents

are located so that there is no risk they won't be found.

□ **Talk to the professionals.** Do-it-yourself estate planning is not recommended, especially if your estate is complex enough to trigger financial, legal and emotional issues among your heirs upon your passing.

Many people have the idea that they don't need an estate plan because their net worth is less than X dollars. Keep in mind, money isn't the only reason for an estate plan.

You may not be a multimillionaire yet, but if you own a business, have a blended family, have kids with special needs, worry about dementia, or can't stand the thought of probate delays plus probate fees whittling away at assets you have amassed ... well, these are all good reasons to create and maintain an estate planning strategy.

If you have questions about your financial present or future, you can certainly call Eric Gullotta at his Santa Rosa office at 707-843-5257 or Sonoma office at 707-938-7234 for a free 30-minute consultation to discuss any of the above.



Tax Advice Disclosure: To ensure compliance with requirements imposed by the IRS under Circular 230, we inform you that any U.S. federal tax advice contained in this communication (including any attachments), unless specifically stated otherwise, is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties or (ii) promoting, marketing or recommending to another party any tax-related transaction(s) or matter(s) addressed herein. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us. Tax preparation and consultation services are offered through the office of Montgomery Taylor, CPA, with professional memberships in the California Society of CPAs and the American Institute of CPAs.

## College Strategist

Paying for College Without Going Broke

### Resolve to Get Going on College Prep!

It's the beginning of a New Year, and perhaps one of your resolutions was to help your child prepare for college. Here are some specific things you'll need to do each year to help reach your child's college goals.

**Freshman Year** - The most important thing your child can do at this stage of their education is do their best in school. The college-bound student should take challenging (but not overwhelming) classes that will stretch their thinking and sharpen their abilities. Consult with your child's guidance counselor to make sure your student is taking the college prep courses they will need to qualify for admission to the college of their choice.

★ **Sophomore Year** – Sophomores are now more confident in their ability manage high school. It's important that they continue to do their best academically, and make the most of their high school experience by participating in extra-curricular activities or playing sports. In addition:

- ♦ Explore ways to prepare for standardized tests. SAT & ACT prep courses have proven to increase test scores.
- ♦ Start researching colleges. Attend college fairs. Pick up information about admission requirements, college majors, financial aid and much more.
- ♦ Protect your money. Talk to your College Funding Advisor about strategies to protect your assets from the financial aid formulas.

★ **Junior Year** – This is an extremely important year --your student will be busy staying on top of schoolwork and extra-curricular activities while accomplishing these tasks:

- ♦ Register for SAT/ACT Tests. Check with the guidance counselors for exam dates.
- ♦ Request information from colleges of interest.
- ♦ Do volunteer work. Colleges like to see individuals who demonstrate an interest in serving their communities.
- ♦ Get your financial game plan in place. Protect your assets from the financial aid formulas.

★ **Senior Year** - While your student is enjoying this final year of high school, it's important to stay focused and organized while completing these tasks:

- ♦ Submit college applications. Pay close attention to deadlines and submit everything that's required.
- ♦ Complete the FAFSA (Free Application for Federal Student Aid) and submit it on January 1<sup>st</sup>. Check with individual colleges about additional financial aid forms that may be required.
- ♦ Keep your money safe from financial aid formulas! We are here to help with any questions regarding the complicated college funding process.

Call our office at 576-8700 for more information about upcoming College Funding Workshops.

College planning services are offered through our College Plan Advisors, LLC, company and its affiliation with College Planning Network and the National Association of College Funding Advisors.

# Financial Strategy of the Month

“Here’s an idea I think will save you money!”



## In Volatile Times, Some Turn to Insurance

By Gary Liess, Insurance Advisor

Life Insurance, it's fair to say, is a subject that provokes strong opinions. People who

like insurance see it as a way to leave money to heirs tax-free or to make sure there is money for a rainy day. Those who don't like it see a product that generates fees for the seller.

But given continued volatility in the stock market, the low interest rates on government bonds, and low yields on United States Treasury bonds for the foreseeable future, there has been an increase in interest in insurance policies for their steady returns.

Some financial advisers have begun encouraging clients to buy permanent whole life insurance — permanent because it does not lapse, like term insurance, after a set time — as a substitute for bonds in their portfolio.



The argument for permanent whole life insurance is threefold: 1) the rate of return on permanent life insurance is 4 to 5 percent, 2) the money in a policy ultimately passes to beneficiaries free of income tax, and 3) owners can borrow against the policy without incurring any taxes. If they do not repay the loan, it will simply be deducted from the death benefit. Right now, you have the ability to generate yields that are competitive with other investments.

So what do you need to consider if your adviser suggests you think about putting money into permanent life insurance?

People who want to use permanent life insurance plans to build wealth do so by paying more than the premium, a practice known as overfunding. This can mean anything from increasing annual payments to making a lump sum payment. The plan we like has the smallest amount of insurance possible to retain the benefits of life insurance while maximizing the cash built up. These types of plans have very low commissions for the agent and it is one reason most people are never introduced to them.

Overfunding could be a good use of your funds because it enables you to get a longer-term return. It's probably not a good thing if someone is doing this with the idea of taking money out in one year. If you're looking 10 to 20 years down the road, it works better.

Why not just invest money in other, faster-growing assets? For people with substantial wealth, the advantage is predictable growth on a part of their portfolio that they hope not to need.

Over a 10-20-year holding period, most permanent life insurance policies have an internal rate of return of 4 to 5 percent depending on the company. Given how the world looks, is it bad to have a 5 percent tool in your investment box? It's not going to hurt you.



Or put another way, life insurance gives you guaranteed growth: the death benefit will be worth more than what you put in. Critics would argue that you could earn more money

investing that money outside an insurance policy, but even some very wealthy people do not want to take the risk.

**Montgomery Taylor, CPA**

**Client Benefits:**

1. Expert tax-saving advice as a regular part of your income tax preparation
2. Professional Service Warranty that guarantees you the largest tax refund possible with the lowest tax liability
3. Your tax returns completed within eight business days of when you provide all necessary data
4. Your phone calls returned promptly (any time of year), always within 24 hours
5. Help with allocating your 401(k) investment funds
6. Monthly ClientAdvisor Newsletter
7. Professional online tax advice anytime ~ mtaylor@taxwiseadvisor.com

**Platinum Tax Maintenance Program  
2010 Member Benefits:**

1. ALL CPA Client Benefits listed above, **AND**
2. Three phone consultations (20 minutes each or a total of 60 minutes) during the tax year scheduled through our appointment desk
3. W-4 review to be sure your withholding is correct
4. Audit assistance in the event you are subject to an audit for the 2010 year, limited to four hours of service at no additional expense
5. Answer all IRS notices and correspondence you receive for 2010 tax year
6. Answer FTB notices and correspondence including Head of Household Audit Letter for 2010
7. 1 additional copy of tax year 2010 tax return
8. \$50 discount on our fall tax planning appointments scheduled through our appointment desk

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**Client Benefits:**

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2. Investment management for any account size (no minimums)
3. Monthly account statements directly from Fidelity Investments
4. Quarterly performance reports and consultation meetings
5. Tax-sensitive investing strategies integrated with your financial planning
6. Monthly ClientAdvisor Newsletter
7. Weekly Economic Update e-mail communication

**College Plan Advisors, LLC  
Client Benefits:**

1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly "Tip of the Week" E-Mails



**Notes from Monty's private money management file...**

Gold peaked in early September and has been on a bumpy ride down since then. Lately, gold has been moving in sync with stocks and not attracting investors looking for safety. Investors are going to the Dollar and Treasuries for a safe haven. In mid-December I closed out the position in gold bullion (GLD).



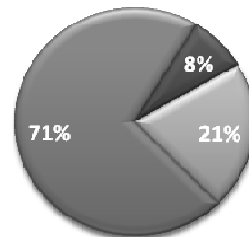
The original shares of GLD were acquired in July 2010. On the sale, we realized a 38% gain. Back in August, I reduced our exposure to GLD and sold shares at a 43.5% gain.

To profit from the decline of gold, I purchased a position in PowerShares Deutsche Bank Gold Short (DGZ). This being a "short" position, it will gain while gold declines. I also purchased two other positions which do well while the broad stock markets are stumbling: PowerShares Deutsche Bank US Dollar Bullish (UUP) and ProShares Short S&P 500 (SH).

The US Dollar has been rising in value since this past summer. When fear and risk have been unpalatable to investors, they've run back to the dollar. This has been particularly obvious since 2008.

Over the past couple of years, as the Fed has been printing more and more money to stimulate the economy, investors began to anticipate an **inflationary** period ahead. This was the reason to invest in gold. But the stimulus has only propped up the economy temporarily. And now, with Europe suffering further with a sovereign debt crisis, we can see a period of **deflation** on the horizon – not inflation.

Deflation ahead would cause investors to flee gold and run to the dollar as their safe haven.



The asset allocation is now at 71% Bonds, 21% Stocks, 0% Commodities and 8% Cash. This allocation puts us in just the right position and keeps us nimble to further adjust to the changing economic climate.

Wealth management services are offered through Montgomery Taylor & Company, LLC, a Registered Investment Advisor. Fidelity Investments is the custodian of our client accounts. While accounts are protected by the SIPC up to \$500,000, including cash claims limited to \$100,000, Fidelity provides supplemental protection that covers accounts over and above this SIPC coverage.



# Monty's Money Message

Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to share with you about money and how you can prosper. Monty recently received the "America's Top Financial Planners" award of excellence from the Consumers' Research Council of America. Monty was selected from among his peers based upon years of experience, formal education and specialized professional certifications and designations achieved. In 2010, KZST Radio named Monty "The Only CPA We Trust" and chose him to be the tax expert for KZST listeners.

## Optimistically looking ahead - This could be your best year!

2012... here we are in a brand new year. Nothing has gone wrong yet. Nothing has been damaged yet. It's a fresh start for all of us. This is a new year, a new opportunity to start out on the right foot. As **Tony Robbins** would say, "*The past does not equal the future.*" Begin today to improve whatever isn't as you want it to be.



Every January most people make new attempts at the goals of exercising more, eating less, quitting smoking, saving more money, etc., etc., etc.

**T. Harv Eker**, in his book "Secrets of the Millionaire Mind," writes about the following Wealth Principle: "*Money is a result, wealth is a result, health is a result, your weight is a result. We live in a world of cause and effect.*"

In the area of money, Mr. Eker says that your financial blueprint consists of a combination of your thoughts, feelings, and actions. He says that blueprint is the result of "programming" you received in the past, and especially as a young child. To quote him on this:

**"Isn't it true that certain cultures have one way of thinking and dealing with money, while other cultures have a different approach? Do you think a child comes out of the womb with his or her attitudes toward money, or do you believe the child is *taught* how to deal with money? That's right. Every child is taught how to think about and act in relation to money.**



**The same holds true for you, for me, for everyone. You were taught how to think and act when it comes to money. These teachings become your conditioning, which becomes automatic responses that run you for the rest of your life. Unless, of course, you intercede and revise your mind's money files.**

**Your programming leads to your thoughts; your thoughts lead to your feelings; your feelings lead to your actions; your actions lead to your results. Therefore, just as is done with a personal computer, by changing your programming, you take the first essential step to changing your results."**

So, in 2012, if you're looking for different results - change your programming. It has to start there. So many good books and audio courses have been created for our improvement; it is a shame to let them go to waste! This reminds me of a little saying I read the other day, "**Learn More ~ Earn More.**" I wrote that one on a Post-it.



Here, at my office, and in this newsletter, we focus on financial strategy, and specifically on determinedly working on smarter, sustainable wealth management as the means of helping you generate and preserve wealth, and of making your financial life more controlled and enjoyable. To the extent that you want to kick-start 2012 into being the year you got your financial well-being on track, with more income and better success (and maybe some new programming!), I encourage you to come in and meet with us—on a regular basis.

