CLIENT*ADVISOR*

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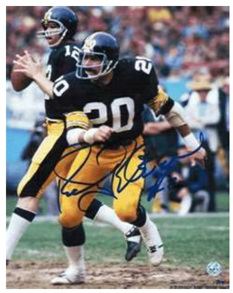
tax&investment newsletter

May 2011

MONTGOMERY TAYLOR, CPA, CFP

Success is a lousy teacher. It seduces smart people into thinking they can't lose. ***-Bill Gates***

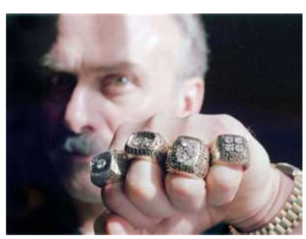
Monty's Opening Thoughts…



I can't honestly say that I'm a big fan of football. Growing up on a ranch in the country, with very little TV reception, I barely knew what football was. When I was in high school, I did go to a few of the games and I do remember watching the cheerleaders. ☺

But I *can* say that I'm a big fan of American heroes, patriotism, courage, determination and hard work. And that is what I found in **Rocky Bleier** when I met him last month. Rocky is a **Vietnam War veteran** and a four-time **Super Bowl** winner as a halfback for the **Pittsburgh Steelers**.

Rocky was a guest speaker at the conference I went to in Cleveland. He told his story of growing up in Wisconsin, living and breathing football. Graduating from high school in 1964, **Notre Dame** in 1968 and then being drafted by the Pittsburgh Steelers. After just one season, he was drafted into the **U.S. Army**. In Vietnam, he was wounded and was later awarded the **Purple Heart** and the **Bronze Star**. He told us the agonizing story of surgery and therapy on the tough road back to the NFL. He never gave up. Hard work and determination finally paid off; he got his opportunity to get back in the game. Rocky went on to win four Super Bowl games.



After his speech, I went up and talked to Rocky for a while. There was a professional photographer there, and Rocky, being a bit of a ham, placed his four Super Bowl rings on my fingers and asked the photographer to take our picture together.

The picture I have of Rocky is that of someone who is bound and determined to not give up, overcome the most challenging of obstacles and never say "Uncle." He is inspiring. And, I'm a fan of that.

Warm regards, Monty

An Advisor With

ANSWERS

TO YOUR QUESTIONS

Even those you didn't think to ask.

Our team of experts is here to work on your priorities--to plan, protect and help fulfill your vision of the future.

To request an informational package about our investment management services, send an email to info@taxwiseadvisor.com.

Inside This Issue

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☺ Staff News ☺

Tax season is over, and now it's time for our staff to recover from working the long hours associated with that hectic time. Here's how we rejuvenate:

Barbara has been enjoying spending more time outdoors – taking her dog for long walks, working in her garden, and hiking on nature trails. She recently drove up to Donner Lake to spend a day admiring the beauty of the snow covered mountains.

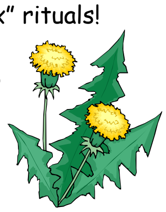
Monty likes to find a cozy, quiet place to sit and read. Perhaps at the ocean, next to his pool, or on the front porch of his Mom's house. Monty just gave Sandy a long list of books to buy for his summer enjoyment. Hmmmm . . . yes, these are all books on financial topics, but Monty swears that he finds them relaxing. Working outdoors you ask? Well, if he has to. Growing up on a ranch, Monty says he got enough of that to last him for a while yet.

Mary-Ann has been attending more of her 7-year-old grandson's baseball games (the grandson of **Phil's** wife **Margie** is on the same team!), starting her vegetable garden, and visiting with family & friends.

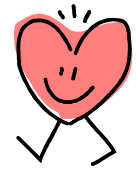
Phil is getting ready for extended travel with **Margie**; towing the Airstream trailer. They will spend a few months on the east coast from Canada to Georgia. All this will be new to Margie; Phil has "been there, done that" and will cheerfully do it again!

Rob goes through a regular "detax" program. For some reason, the day after taxes always finds Rob at the mall, just wandering around and wondering if he needs to replace anything he wore out while he wasn't paying attention. Then he schedules at least two massages and two rounds of golf. He knows he has completed "detax" when he can muster the energy to mow the lawn. Soon he will even be able to do his own tax return!

Sandy thinks she had better come up with something more interesting to do after tax season next year, after reading about everyone else's "detax" rituals! Mostly, she is glad to have her Saturdays back. She also likes having dinner with her family on weeknights again, being able to catch up with her friends, and getting out and tackling the weeds in her front yard.



I tell my friends, "You're safe there."



I count on Monty and Phil at tax time, to keep me on the straight and narrow. The office is very warm, everyone is very helpful and someone is always available. Monty has been wonderful – he's given me some very good advice. He's been very helpful with my father's trust and my own trust in advising me on how to take care of things for my family, as well as for myself.

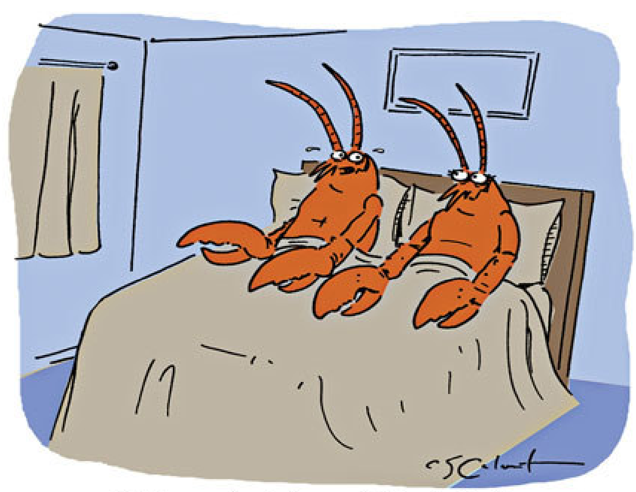
My previous tax preparer just ran a "drop off" service. Drop your stuff here, pick it up in a week and we'll tell you how much tax to pay. Nobody went over it with you. You weren't really sure what you were looking at. It's not like that at Montgomery Taylor and Company. Someone always sits down with me and explains things to me – tells me why we're using this form, tells me what things are about.

I'm comfortable working with Monty and have recommended him to several friends. I think it's important to get people who are retired to Monty to have him manage their 401Ks because that's really important. Right now people are really scared because of this economy. I tell my friends, "You're safe there."

I'm a very loyal client and I'm planning to stick around for a long time.

-Jeannette Turpin, Retired Nurse, Santa Rosa

Wish you knew how to get out of debt?
Check Monty's blog for 6 ways to get started:
http://blog.taxwiseadvisor.com

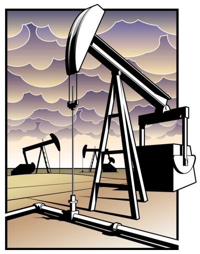


"All I remember is the smell of melted butter, and then I woke up with my heart racing."

Tax Strategy of the Month

"Here's an idea I think will save you money!"

Drill for Tax Breaks with Oil and Gas Funds



Who says there are no great "tax shelters" left for investors? Risk tolerant investors may be intrigued by the idea of investing in oil and gas drilling funds. Drilling fund investors can qualify for a special up-front tax break: the deduction for intangible drilling costs. A dollar invested this year might provide a deduction of 50 cents, 70 cents or even 90 cents this year.

In drilling funds, investors pool their money, which is used by a driller to hunt for oil, natural gas or both. As is the case with other types of partnerships, public drilling funds are composed of thousands of investors who contribute tens of millions of dollars to drill in several places. In private drilling funds, a few wealthy investors make larger commitments, but the total amount raised winds up being smaller.

In either case, investors may benefit from two prime tax shelters: 1) a deduction for intangible drilling costs (IDC) in the first year or two; 2) an allowance for "percentage" depletion over the life of the venture.

Net result: Thanks to intangible drilling cost deductions, the investor may receive a large up-front write-off to shelter other income. And ongoing revenues from selling the oil and gas will be partially sheltered from tax, thanks to the depletion deduction. (A special provision in the tax code allows many oil and gas investors to deduct intangible drilling costs up front without regard to the dreaded passive loss rules.) Investors can usually expect first-year write-offs of anywhere from 50% to 90% of the investment. In some deals, payments for the investment are made over several years.

Example: Oil Drilling Fund (ODF) raises $10 million. After all costs, $8.5 million is spent on drilling the first year. Of that $8.5 million, $8 million is deductible, thanks to the IDC. Normally, it takes a while for oil and gas to be "lifted" and sold. Thus, ODF may have no income in its first year. With $8 million in tax deductions and zero income, it reports an $8 million loss for the year.

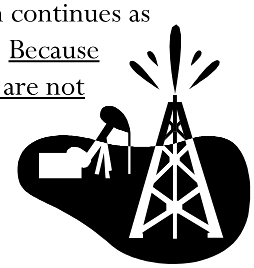
That loss is passed through to the investors who put up the $10 million. Thus, each investor can report a loss of 80% of the contribution. A $10,000 investor would get an $8,000 tax loss. However, to get the initial write-off, individuals can't invest as limited partners. Many drilling funds are now structured so that investors are general partners or investors may enter into a joint venture.

Caution: There are risks attached to the deal. Theoretically, the investor is exposed to all the obligations of the drilling fund. If some kind of drilling disaster occurs, he or she could be liable for damage awards. In a good drilling fund, the sponsor will do as much as possible to reduce those risks. A multimillion-dollar insurance policy will be in place--someone else will put his assets on the line before those of the investors. There will also probably be a plan for investors to convert to limited partners after the drilling is done and tax deductions are no longer needed.

What if investors don't want to assume the extra liability? They can invest as a limited partner. In this case, the investor is participating in a passive activity and can't deduct the losses immediately unless he or she has passive income from other sources. Instead, the losses will be carried forward to offset income from the drilling fund. Thanks to the passive loss carry-forward, all the drilling fund income (assuming there is income) may be sheltered for several years.

If the drilling is successful, revenues will start to flow to investors. That's where percentage depletion comes in. If new oil and gas is discovered, the investor can deduct 15% of the gross revenues. That's what's meant by percentage depletion. An investor might wind up sheltering 20% to 25% of drilling fund net income with the depletion write-off.

Advisory: Percentage depletion continues as long as income is being received. Because percentage depletion deductions are not limited to the amount invested, these write-offs can potentially shelter income well in excess of the amount invested.



Tax News You Can Use…

New law repeals expanded 1099 reporting rules

On April 14, 2011, President Obama signed legislation--the ***Comprehensive 1099 Taxpayer Protection and Replacement of Exchange Subsidy Overpayments Act of 2011***--repealing expanded reporting rules for businesses and landlords that had been created by laws passed in 2010.

Business reporting. The Form 1099 reporting rules were changed by the 2010 health care legislation. Under the Patient Protection and Affordable Care Act of 2010, every business, charitable organization, and governmental unit was required to file a Form 1099 for payments to any vendor or supplier of goods or services (other than a tax-exempt organization) totaling $600 or more for the year. Both the recipient and the IRS had to receive a copy of the Form 1099.

These rules were scheduled to take effect for payments made after December 31, 2011.
Before the passage of the health care law, payments to corporations were generally exempt from the Form 1099 reporting requirements. The 1099 law just signed by President Obama completely repeals the expansion of business reporting requirements, and the reporting rules return to what they were before health care legislation.

Rental property reporting. Similarly, new Form 1099 reporting requirements were recently imposed on landlords. Under the Small Business Jobs Act of 2010, owners of rental properties were generally required to file a Form 1099 for rental-related payments to any provider for services totaling $600 or more for the year. These reporting rules were to apply to recipients who provided professional services, such as accountants, as well as workers like plumbers and electricians. They were to be effective for payments made after December 31, 2010.

The new law repeals these expanded Form 1099 reporting rules for landlords. As with the repeal for business reporting, it's like the requirements never existed.

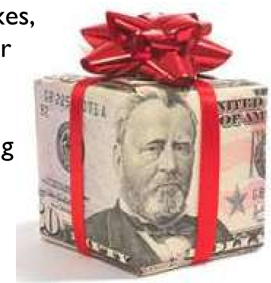
Repeal of the expanded business and rental property expense reporting rules will eliminate a flood of paperwork for most small business and rental property owners.

Estate taxes might not affect you, but you still need a plan

There's good news if you're concerned about estate taxes. For the next two years (2011 and 2012), the value of your estate that's excluded from tax is set at $5 million. And the top rate on taxable estates is 35%.

The $5 million exemption is per person--thus a couple's exemption is $10 million. Also notable in the law is the new portability of unused exemptions. Under prior law, couples frequently performed complex estate planning to take full advantage of the then $7 million exemption for couples. Now the law allows a deceased spouse's estate to transfer any unused exemption to the surviving spouse without the extra complex planning.

So what should a taxpayer do to take advantage of the current rules? First, estimate the size of your estate and if you may be subject to taxes, consult us and your attorney for planning options. For example, you might consider taking advantage of the favorable gifting and generation skipping tax exemptions by making tax-free gifts to planned beneficiaries now. It's important to realize that not only will planning for these events minimize potential estate tax, but you will also be preserving assets for your family.



If your estate is under the tax threshold, don't assume that you can just ignore estate planning. If you have a plan in place, you should review and update it at least annually. First, your financial situation might have changed. Or there could be changes among your heirs or beneficiaries. Think of all the births, marriages, deaths, and divorces in your extended family during the last year.

If you don't have an estate plan, establish one as soon as possible. A plan is not just about avoiding estate taxes. At a minimum you need the following:

☑ A will or trust to specify who will inherit your assets and to appoint a guardian for any minor children.

☑ A medical directive or "living will."

☑ Health care and financial powers of attorney.

☑ Updated beneficiary designations for insurance and pension assets.

For help calculating the value of your estate, or to learn more about how estate taxes might affect you, please contact our office.

Consider the time value of money in making business decisions

Suppose you're selling your business, and it's worth $400,000. You're offered $210,000 down and lump sums of $100,000 at the end of year one and year two. Should you take the offer?

Most people know that $1,000 now is worth more than $1,000 a year from now. Here's why:

1. Inflation: In a year, a dollar will buy less than it would today.

2. Risk: Over time, the risk increases that some of the money owed you will not be paid.

3. Opportunity loss: Funds on hand could be invested and earning more money.

Present value analysis attempts to quantify these variables. It discounts the value of future funds by estimating inflation rates, risks of loss, and rates of return from alternative investments.

Assume you could earn 2% by investing in a $100,000 CD. Disregarding compounding, in a year your investment would be worth $102,000. Conversely, if you postponed receipt of $100,000 for a year and inflation eroded the principal by 3%, you'd receive the equivalent of $97,000 in today's dollars. (Note that with 3% erosion, even the $102,000 CD proceeds would be worth only $98,940 in today's dollars.)

In the opening example, your proposed "investment" (a two-year $200,000 note receivable) would be far riskier than a CD. To compensate, you might decide not to accept anything less than an 8% return. A present value table indicates that at 8%, the discount factors for one and two years are .926 and .857, respectively. $100,000 times .926 is $92,600; $100,000 times .857 is $85,700.

Thus, in today's dollars, the buyer is offering $388,300 ($210,000 down payment plus $92,600 plus $85,700). Since your business is worth $400,000, you would be selling for $11,700 less than full value.

A similar analysis can be applied to any business transaction involving future payments. For help with the calculations or assistance with any of your business needs, call us for an appointment.

College Strategist

Paying for College Without Going Broke

High School Seniors: Getting Ready for College

There's an old Chinese saying that goes, "The journey of a thousand miles begins with a single step." No matter how unsure you feel taking that first step, each one after that brings you closer to your destination! If your student will be leaving for college in the fall, here are some tips to make that step a little easier.

By now you have made your final decision about what college you want to attend. Follow their procedure for accepting a placement, and notify any colleges you decide not to attend. This can likely all be done online.

Your school has probably provided you with an I.D. number, and told you how to access your personal e-mail account. The university website and e-mail account are your lifelines to knowing everything you need to know before and after you get to your college. You can find out when orientation will be, and how to sign up for it; how to decide what dorm you will live in, and with whom; how much money is due, and when; and many other important things.

You should also have received information about your financial aid "package," which may include federal financial aid, scholarships, "work-study," grants, and any other financial aid you are offered. If you don't feel your financial aid package really reflects what your family can afford to pay, you have some recourse: you can appeal to the university financial aid department to explain more about your personal financial situation. Contact your university on how to go about doing that.

Continue trying to garner local scholarships, grants, loans, and other monies. Student loans can be through the government, or a bank or credit union. If you have a part-time or summer job–save, save, save! The same goes for any money you receive as graduation gifts.

The sometimes difficult, but often fun senior year is almost over. You've made it to graduation. Go on out and buy a university t-shirt or bumper sticker to proudly display your university colors! Be very proud of yourself for seeking a higher education.

If you'd like more information about paying for the cost of college, contact our office at 576-8700 to schedule a free initial consultation.

Financial Strategy of the Month

"Here's an idea I think will save you money!"

This Old Policy…Trash? Or Treasure?

So, you have this old life insurance policy you've been paying monthly premiums on, for what seems like forever. Back when you took out the policy there seemed to be good reason for it. Now, all these years later, as you write the check for the premium, you are wondering if you are doing the right thing. Do you still need this policy? Should you just cash it in?

This dilemma was on the mind of a client who recently brought in a life insurance policy and asked me, "What should I do with this?" Here is the situation (approximately): $100,000 face amount, whole-life policy, $14,000 outstanding loan, $14,000 cash surrender value, $365 monthly premium.

This client also has an IRA. If the client were to die today, the heirs would receive the following:

	Life Ins	IRA	Total
Death benefit value	$100,000	$50,000	$150,000
Less: loans on policy	-14,000	-0	-14,000
Value to heirs	86,000	50,000	136,000
Less: income tax	-0	-16,667	-16,667
Real inheritance	$86,000	$33,333	$119,333

How could we improve this picture, so the client passes on more value to the heirs? Well, by digging into the client's situation a bit further, I found an additional fact. The client has a large net operating loss (NOL) being carried forward on their tax return, creating a situation where they have no taxable income. So, under these circumstances, the client can pull money out of the IRA *without* paying any income taxes on that money.

Let's see what happens if we use money from the IRA to pay off the life insurance policy loan of $14,000, and then put the remaining $36,000 into the life insurance policy's cash value, which also increases the death benefit:

	Life Ins	IRA	Total
Death benefit value	$100,000	$50,000	$150,000
Less: loans on policy	-0	-14,000	-14,000
Add: to cash value	36,000	-36,000	0
Value to heirs	136,000	0	136,000
Less: income tax	-0	-0	-0
Real inheritance	$136,000	$0	$136,000

As you can see, the bottom line result of this movement of money saves the family $16,667 in income taxes they would have otherwise paid. The client can accomplish this savings by essentially moving money from one bucket to another bucket. There is still access to this money in case it's needed; the cash value of the policy can be withdrawn (tax-free) or even borrowed from the policy (tax-free). These moves may also result in "paying up" the policy so that no further premiums need be paid, freeing up $365 per month the client can use to meet other expenses or to invest.

So, what are you doing with your old policies? Isn't it about time you had us look at them?

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

Montgomery Taylor & Company, LLC,
Registered Investment Advisor
Client Benefits:

1. Independent, unbiased, investment advice on a fee-only basis (no commissions)
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:

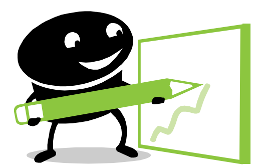
1. Student Counseling and Assessment
2. Calculate Expected Family Contribution
3. College Funding Strategies & Planning
4. Complete your FAFSA Forms
5. Complete your CSS Profile Forms
6. Appeal/Negotiate Better Awards
7. Monthly Cash for College Newsletter
8. Monthly ClientAdvisor Newsletter
9. Weekly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

Green Label Portfolio ™

Notes from Monty's private money management file…

Thirty percent of the **Green Label Portfolio** invests in the primary trend of the stock market and emphasizes an exit strategy to protect against market corrections. For this portion of the portfolio, the year-to-date (through April 14) return has been +5.66%, while over the same period the benchmark S&P 500 with dividends is ahead 5.04%. Since our November 5th buy signal, this portion of the fund has gained +9.50%, while the S&P 500 with dividends has gained 8.09%.

On April 6th the majority of widely followed averages closed at bull market highs with the Russell 2000, S&P small cap index, and S&P midcap index closing at their highest levels ever. It is interesting to note that one day prior to the top, Investors Intelligence reported that the bearish contingent amongst advisor services had dropped to 15.7% versus 23.1% the prior week. This was one of the sharpest drops in bearish sentiment in Investors Intelligence history, which goes all the way back to the early 1960s.



Since the April 6th peak, stocks went under selling pressure through mid-April. Then, it strongly reversed to the upside and exceeded the April 6th peak. Better than expected quarterly earnings reports have sent the markets higher. Also helping this liquidity driven market is the fact that money market funds and CDs continue to offer investors little or no rate of return. With the Federal Reserve still in an extremely accommodative mode, analysts think this low interest rate environment will continue to last throughout the rest of the year--which should continue to send the averages higher.

The Fed's $600 billion bond-buy program is set to end June 30. The question is: who will buy treasury bonds in July? If the Fed has to increase rates to sell new bonds, it will put downward pressure on bond prices and slow business growth due to higher borrowing costs, among other likely results. Like **Bill Gross**, of **PIMCO**, I have reduced exposure to bonds.

If you are not currently having us manage your investment portfolio, but would like to receive information regarding our privately managed account program, please send an email to info@taxwiseadvisor.com.

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

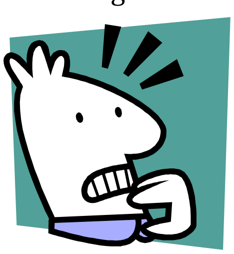
Monty started his career in financial services about 30 years ago as a Stockbroker. He then became a Certified Public Accountant, Certified Financial Planner, Certified IRA Distribution Specialist and Registered Investment Advisor. With all these years of experience, he has a wealth of information to 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.

Is Bambi in the Crosshairs?

I was reading a travel magazine article recently about a man who had a deer walk right up to him in a campground. He even took a funny picture of the deer with its nose up close to the camera lens. Did the deer know that it wasn't hunting season? This deer was so used to the campers that he lost his fear of people. He had become complacent and casual and secure.

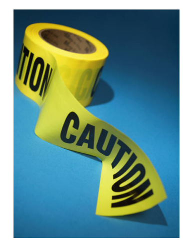
We are all guilty of a false sense of security. With our businesses, our personal safety, our homes, our investments, with everything. We fail to be vigilant. And, almost no matter how many times this hurts us, we repeat the behavior.

The Depression put a lasting paranoia into our parents (grandparents for some.) The paranoia produced a commitment to getting the house paid off and having a mortgage burning party. Husbands gave wives the paid-off mortgage as an anniversary present, and it was appreciated. Food was canned and stored in cellars, "just in case." Even the wealthy did not waste. Appliances were actually repaired, not discarded. Money was saved up for holiday shopping in "Christmas Club accounts" at the bank, instead of running up huge credit card bills that multiplied by 3X before being paid off long after Christmas. All this lasted into the 1950s, a decade and then some after the end of the Depression. Then the deer grew to believe that they were safe.

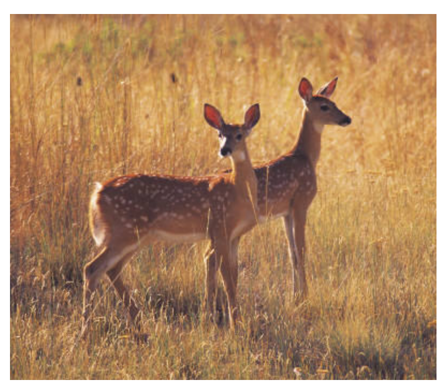


Harold Geneen, most famous for serving as President of the ITT Corporation, said, "Only the paranoid survive." Fear is a strong sentiment. I caution you about making decisions based strictly on fear. However, the absence of respect for threats, hazards, dangers, risks, change and changing conditions, etc., etc. is just as foolish as permitting your life to be dominated by fears—as much misery comes from the former as from the latter. We need to be vigilant and watch out for our security day by day. We need to respect gravity, including financial gravity. We need to acknowledge that we have "enemies" – whether that enemy is the government mismanaging our tax money, the IRS, the big banks and mortgage companies or the Wall Street gurus.

Just recently the **Press Democrat** ran an article about Gerald Hosier, an intellectual-property lawyer who was awarded $48 million in a case against Citigroup (Smith Barney). **Smith Barney** sales representatives sold high-net-worth investors on a "safe" municipal bond investment—that really turned out to be an arbitrage strategy which paid huge fees to the sale reps. Many investors lost over half of their investment. In the interview, Hosier said the experience had opened his eyes to the disturbing ways of Wall Street. "Instead of the financial world being the lubricant for business, they are out there manufacturing products with no utility whatsoever except for generating fees," he said. "Somebody's got to do something about Wall Street. It is destroying the country."



I've been in this business long enough to see too many shameful investment scams devastate people's lives. At first, I didn't pick up on the danger signals. I was green, wet behind the ears and fell for it like other financial advisors—and investors too. Growing up in Alexander Valley in the 1950s and 1960s, we were taught to respect our neighbors and "do unto others, as you would have them do unto you." I still vote for that, but I caution you to stay vigilant and do your best to make things secure for your family.



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