CLIENT*ADVISOR* $39/month

tax&investment newsletter

July 2011

MONTGOMERY TAYLOR, CPA, CFP

To succeed in life, you need three things: a wishbone, a backbone, and a funnybone ***~Reba McEntire***

Monty's Opening Thoughts…

Once upon a time…. On a beautiful sunny day, the birds were chirping and the streets were lined with flowers in full bloom as a man drives his car into the driveway of an auto repair shop. He tells the mechanic to take care of service and maintenance issues—but only on the passenger side of the car. The mechanic looks at him a bit funny and the man proceeds to tell him not to worry about the driver's side of the car—he will personally take care of that.

Just to make himself clear, the man further explains to the mechanic that when he rotates the tires—just rotate the passenger side tires; when he aligns the front end—just align the passenger side; same with the brakes, the sparkplugs, the oil, etc.

Now, be honest, if you were the mechanic, what would you be thinking? Go ahead, say it out loud.

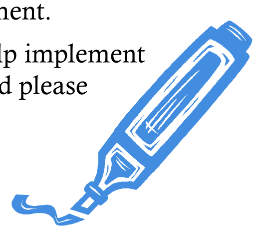
I'm sure you're wondering why I've made up this ridiculous story. No one would do such a thing – it's absurd!

Well, now, not so fast. This kind of thing happens all the time. Maybe not with cars, but with financial advice. It happens like this: Someone will say to me, *"Monty, I have $200,000 to do something with. I'd like to have you advise me on $100,000 of it."* In other words, they just want my best advice on the *passenger* side of their financial life!

I'll admit I have a sense of humor and I am easily amused, but I've always said…***people are funny when it comes to money.***

I'm sure you've noticed the highlighter gift enclosed with this newsletter. Take it out and highlight this month's "course materials" of specific use to you. This month I've included an article on deducting your business education expenses, an article on the concept of separating and managing your home equity, an article on creating a pension--like your grandpa had--and several other important topics. Surely, there is something here you can implement.

Need help? Just call our office--we're glad to help implement any of these financial strategies—in whole. And please take it easy on those half-strategy requests. ☺



Warm regards,

Monty

Keep Watching!
Email IS Coming!!!

We are still in the process of setting up a new email system for the distribution of our weekly economic news and monthly tax tips. When our new system is in place, we will send you an email. When you receive it, please "opt-in" so that we can provide you with these timely updates!

Inside This Issue

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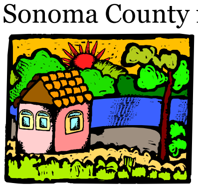
Staff News

A perfect summer day is when the sun is shining, a breeze is blowing, the birds are singing, and the lawnmower is broken. – James Dent

Monty, Terri and Joseph spent a week relaxing on the Oregon coast, near the quaint little town of Florence, Oregon. They settled into a cozy cabin with all the makings for some quiet R&R. They spent time reading books, watching videos and sleeping. Of course there were also day trips for walking on the beach, browsing in antique stores and riding horses. Yep—Monty got back in the saddle one more time.☺ (You remember that he grew up on a ranch, right?) Unfortunately, our office dress code doesn't allow the wearing of spurs....

Phil and his wife, Margie, are traveling across the country in their Airstream trailer with a caravan of other folks traveling in trailers and motor homes. Phil loves to explore National Parks throughout the United States—we've heard that even a broken hand hasn't slowed him down! We look forward to hearing more about his adventures when he returns to Sonoma County in the fall.



Rob and his brother have rented a cabin on a lake in Northern Michigan. They will enjoy the aquatic recreation and visit the local music camp at the Interlochen Center for the Arts, where they both received musical training in their youth. The camp finale is a performance of Les Preludes by Franz Liszt, performed by an orchestra of over 300 musicians and with ballet dancers filling the aisles and roof of the outdoor concert amphitheatre. (You can see this spectacle on YouTube--try searching Interlochen Les Preludes.)

Barbara recently returned from vacationing on Maui. She had a very relaxing time...walking on the beach, swimming, snorkeling, reading and applying lots of sunscreen. She has also been enjoying our local warm summer evenings going to free concerts with family and friends – Tuesdays on the Healdsburg Plaza and the Thursdays on the Windsor Town Green.

Monty Helped Me Trim My Tax Liability

When I first came in I was nervous working with somebody new. You have to be able to trust someone because now they know everything about you. Over a period of time I've come to really trust Monty. And that's the most important thing - you have to trust the person who's doing your taxes and is your financial advisor. And he's proven himself.

Monty went through my previous tax records and sorted it all out and corrected the mistakes. Monty knows what's what. He immediately helped me trim my tax liability considerably.

Some accountants are negative, wheeler-dealer types. I don't get that from Monty. He's just like a regular person. He's not aggressive, he's a gentle person. Maybe that's where "gentleman" is derived from. I also like Monty because he's local, he knows the area. He's grown up around here which makes a big difference to me.

I am not a financial-type person, so I really appreciate Monty's services. My investments used to be moderately aggressive, but when I saw my earning years dwindling down and the stock market the way it is, it was good to go talk to Monty and immediately go to very conservative investments. He helped me save what was there, rather than losing it.

I'm very comfortable working with Monty. Whenever I call, someone always calls me back, and Monty usually calls me back personally to answer my questions. I like someone who knows me, rather than an impersonal phone call from one of the larger financial groups.

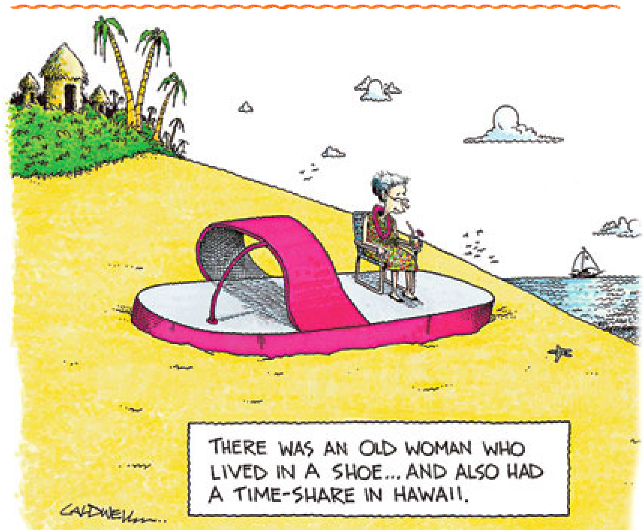
-Robert Richutti, Pump Mechanic, Santa Rosa

(Testimonial from one of our CPA firm clients.)

Are CDs still worth it?

Check out Monty's blog for CD pros and cons:

http://blog.taxwiseadvisor.com



Tax Strategy of the Month

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

Here's a Lesson on Deducting Business Education Expenses

Before you know it, the kids will start heading back to school. How about you? Maybe you've decided to take a refresher course at a local college. Or you could be thinking about shifting gears and starting a new career path. In some cases, you can deduct business or work-related education expenses; in others, you can't.

Let's start with the basics. You **may** be able to deduct the costs of education as a business expense if you pass either one of these two tests:

1) The education is required by your employer or by law to keep a current job. The required education must serve a business purpose for your employer.

2) The education maintains or improves skills needed in your present work.

On the other hand, you **can't** deduct any of your expenses, *even if you qualify under one or both of the first two tests, if the education*:

- is needed to meet pre-existing minimum educational requirements of the current job or trade or business
- qualifies you for a new trade or business or profession.

This sounds simple enough, but the lines often can be blurred in real-life situations. That is why this issue is frequently contested in the courts. More often than not, the IRS will prevail in these cases, especially if it claims the coursework qualifies you for a new trade or business.

Usually, you can't deduct grad school expenses, even if you are already in the same general line of work. But there have been a few notable exceptions. In a recent case, the Tax Court approved deductions for a registered nurse who incurred $15,000 in tuition expenses to attain a master's degree in business administration.

How much is deductible: There's no dollar limit. You can write off expenses like tuition, books, lab fees, equipment and transportation between work and school. For instance, if you go to class directly after work, the cost of the travel—whether by car, bus or train—is deductible. But you can't deduct those travel costs if you stop at home for a bite to eat.

<u>If you are an employee who qualifies for deductions under the preceding standards, you must treat business education expenses as a miscellaneous itemized deduction item, subject to the usual "floor" of 2% of adjusted gross income (AGI).</u>

Example: Cindy Green's annual AGI is $100,000 and it costs her $2,500 in tuition and related expenses to take courses related to her job this fall. Absent any other miscellaneous itemized deduction items, Cindy's deduction for 2011 is limited to only $500 ($2,500 minus 2% of $100,000).

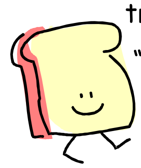
A better approach is to have the company pay for the business education. Employer-paid reimbursements are generally deductible in full by the company and tax-free to employees.

Alternatively, if a company establishes an education assistance plan, an employee may be able to receive up to $5,250 in benefits a year, free of income tax.

☺"Deli Tax Return"☺

The owner of a small deli was being audited about his tax return. He had reported a net profit of $80,000 for the year. "Why don't you people leave me alone," the deli owner said. "I work like a dog, everyone in my family helps out, and the place is only closed three days a year. And you want to know how I made $80,000?"

"It's not your income that bothers us," the IRS agent said. "It's these deductions. You listed six trips to Bermuda for you and your wife."



"Oh, that," said the owner, smiling. "I forgot to tell you – we also deliver."

Tax News You Can Use…

Tax filing reminder

August 1 - Deadline for filing 2010 retirement or employee benefit returns (5500 series) for plans on a calendar year. (Normal deadline is July 31, but since that day is a Sunday, the deadline moves to the next business day, August 1.)

A critical business question: Should you incorporate or not?

One of the first decisions you face as a new business owner is whether or not to incorporate the business. The biggest advantage of incorporating is limitation of your liability. Your responsibility for debts and other liabilities incurred by a corporation is generally limited to the assets of the business. Your personal assets are not usually at risk, although there can be exceptions to this general rule. The trade-off is that there is a cost to incorporate and, in some cases, tax consequences.

Should you incorporate?

You might not need to incorporate. Depending on the size and type of your business, liability may not be an issue or can be covered by insurance. If so, you could join millions of other business owners and operate as an unincorporated sole proprietor.

If you do decide to incorporate, you'll face a choice of corporate forms. All offer limitation of your liability, but there are differences in tax and other issues.

➢C corporation

The traditional form of corporation is the C corporation. C corporations have the most flexibility in structuring ownership and benefits, and most large companies operate in this form. The biggest drawback is double taxation. First the corporation pays tax on its profits; then the profits are taxed again as they're paid to individual shareholders as dividends.

➢S corporation and LLCs

Two other forms of corporation avoid this double taxation: S corporations and limited liability companies (LLCs). Both of these are called "pass-through" entities because there's no taxation at the corporate level. Instead, profits or losses are passed through to the shareholders and reported on their individual tax returns.

S corporations have some ownership limitations. There can only be one class of stock and there can't be more than 100 shareholders, none of whom can be foreigners. State registered LLCs have become a popular choice for many businesses. They offer more flexible ownership than S corporations and certain tax advantages.

Whether you're already in business or just starting out, choosing the right form of business is important. Even established businesses change from one form to another during their lifetime. Some companies use more than one type of corporation - for example, an LLC to hold the business's real estate and an S corporation for other operations.

Consult our office and your attorney for guidance in selecting the form that is best for your business.

Summertime tax tips

Summertime fun can be made even more enjoyable by adding tax savings. Here are some tax-saving ideas to consider.

* If you have summer travel plans and the primary purpose of your trip is business, you can deduct all the travel costs to and from your business destination and all other business-related costs even if you add on a few extra days for pleasure. You can't deduct costs related to the pleasure portion. Including a spouse or friend on your trip is permissible, but you can't deduct the additional costs for that person.

* If you itemize your deductions, you can deduct the mortgage interest and property taxes paid for your vacation home. A boat or RV can qualify as a vacation home if it has sleeping quarters, cooking facilities, and a bathroom. If a retreat also serves as rental property, you can control your tax deductions by changing the number of days you use it for vacation.

* If you and your spouse work, the cost of sending your children to a summer day camp may qualify for the child care credit.

* If you own a business, consider hiring your child for the summer. Your child can earn up to $5,800 tax-free this year, and your business is entitled to a deduction for the wages paid. You must pay your child a reasonable wage for the work performed. If your business isn't incorporated, a child under 18 is not subject to FICA taxes.

Look into the benefits of a solo 401(k)

Have you heard about solo 401(k) plans? The traditional type of 401(k) retirement plan is now available for self-employed individuals. And it lets you save more than other types of plans.

In the past, 401(k) plans were typically offered by larger corporations. Employees could make pre-tax contributions by payroll deduction. The company would then usually match a percentage of those contributions. Investments grew tax-free until withdrawn at retirement. One advantage of a 401(k) plan is the relatively large amount you can contribute each year - $16,500 in 2011 with an extra $5,500 catch-up if you're 50 years old or older.

Now you can establish the same type of plan if you're self-employed or run an "owner only" business. That's a business with just you and possibly your spouse, but no employees. You can save more with a solo 401(k) than with the traditional SEP, SIMPLE, or Keogh plans. That's because you are able to make two types of tax-deductible contributions. First you make the usual employer contribution as owner of the business. Then you can make an additional salary deferral as an employee. As a result, you could potentially shelter up to $49,000 of your 2011 self-employment earnings from tax. If you're eligible for the over-50 catch-up, that rises to $54,500.

The solo 401(k) plans are flexible and relatively simple to administer. If you think this plan might be right for you, please contact our office. We can tell you more about it and help show you how much you could save.

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

Ten Tips for a Successful Transition to College

You've said goodbye to high school and in a few months will begin your college career. You're excited and perhaps a little worried about living away from home, the workload, the new social scene, and new daily routines. Here are a few strategies to help you with a successful transition to college.

1. **Start Fresh.** Think of college as a brand new beginning – new school, new friends, new you.
2. **Join.** Your college will offer many extracurricular activities and social events. Join a group – you'll make new friends.

3. **Make your dorm room your new home.** Plan in advance what to bring from home to decorate your room and make it comfortable.
4. **Keep in touch with your family.** No matter how busy you are with school and friends, make time to call or email your parents.
5. **Manage your time wisely.** Keep a day planner of your class schedule and keep track of important test dates and assignment due dates.
6. **Choose a healthy lifestyle.** Eat a balanced diet and make time to exercise. Use common sense when drinking and make sure you get enough sleep.
7. **Watch your budget.** Plan a budget and stick to it . . . or you risk running out of money before the end of the year. Buy used textbooks, avoid impulse purchases, use public transportation and limit eating out.
8. **Invest in a good laptop.** Find out what you'll need; then shop around to get the best deal in your price range. And get a warranty!
9. **Go to the library to study.** There will be fewer distractions in the library than in your dorm room. And don't connect to the internet unless you have to.
10. **Remember why you're there.** Don't skip class. College is way too expensive to just goof off. Take responsibility for yourself and your actions. Find a balance between your academics and social activities.

Keeping these tips in mind will help you create a better experience during your freshman year and build a stronger foundation for the years to come.

If you'd like more information about paying for the cost of college, contact our office at 576-8700.

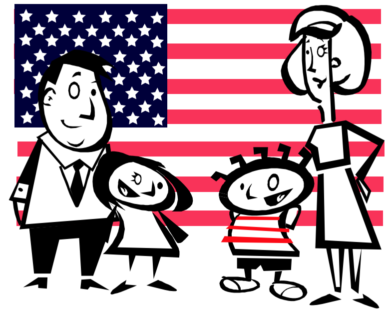
College planning services are offered through our College Plan Advisors, LLC, company and its affiliation with College Planning Network and the National Association of College Funding Advisors.

Financial Strategy of the Month

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

Putting Your Money to Work…

For the peace of mind of financial independence.



Take a look at the features of the following investment, and tell me if, as a potential customer, you would be interested in putting a great deal of your savings into it:

- You can determine the amount of your monthly contribution and the length of time that contributions will continue.
- You can pay more than the minimum monthly contribution, but not less.
- If you try to pay less, the financial institution handling the investment keeps all of the previous contributions.
- The money invested is not liquid; it could take many months to put your hands on it in an emergency.
- The money invested is not safe from loss of principal.
- Each contribution made to the account results in less safety of the principal.
- The contributions that are deposited earn zero percent rate of return.
- Your income tax liability increases with each new contribution.
- When the investment is fully funded, there is no income paid to you.

The investment I just described deserves a thumbs-down from smart investors, and I doubt that you would choose to put serious cash into it. <u>Yet many of you already do!</u> The investment I just described is…a house with a traditional amortized mortgage!

The tradition of "paying off the mortgage" was passed down to us by our parents and grandparents. They had mortgage burning parties! This was done for the sake of financial security by people who experienced the Great Depression and lost their homes due to their inability to pay the mortgage. They felt that if their home mortgage was paid off, at least they couldn't lose their house.

We don't have to look back to the Great Depression to see what financial security there is in home equity—the past few years (now being referred to as the Great Recession) offer plenty of devastating examples. The recent bursting of the real estate bubble resulted in many lost homes, upside down mortgages and trapped equity. When combined with unemployment, it has been a cash flow nightmare for many.

Whether you were caught in the Great Depression or the Great Recession, you would probably have felt so much better if your home mortgage was paid off. But there is a way to have that good feeling AND the financially savvy feeling of being financially independent.

Let's look at an example:	No Mortgage	Big Mortgage
Value of your home	$700,000	$700.000
Less: home mortgage	$ 0	$600,000
Home equity	$700,000	$100,000
Safe "side account" investment	$ 0	$600,000

The example above compares someone who made extra principle payments and paid off their mortgage versus someone else who put those extra payments into a very safe "side account" investment instead.

Now, ask yourself: Which one of these people can get their hands on cash if they needed to due to some financial crisis or unemployment? Which one would be in better shape if their home was leveled by an earthquake or other natural disaster? Which would be better off if the market value of their home dropped by $200,000 and they wanted to sell and move? Which one has a home mortgage tax deduction to reduce their taxable income by off-setting it against wage or pension income? Which one is earning interest income on their "equity?"

<u>Savvy financial independence comes when you have the money to pay-off your mortgage—but you don't</u>. Instead, you separate your home equity in a position of liquidity, safety, and earning a good rate of return. You can do what banks and credit unions do to make a profit in good times and bad: borrow money at a lower rate and put it to work at a slightly higher rate. You can keep putting yourself to work, or you can put your money to work.

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
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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)
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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

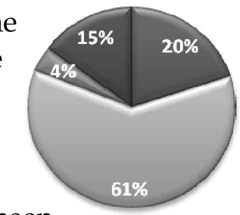
College Plan Advisors, LLC
Client Benefits:

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

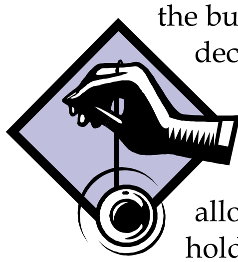
Green Label Portfolio ™

Notes from Monty's private money management file…

As of today, June 28, the **Green Label Portfolio** is 0.59 percent ahead of the S&P 500 Index for the month of June. It's been a down month, until the last few days, but still negative on the month. The allocation has been 61% Stocks, 20% Commodities, 4% Bonds and 15% Cash all month.



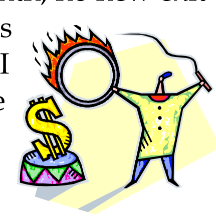
Watching the Dow Jones in June has been like watching a yo-yo. June 1 **-279**, June 10 **-172**, June 14 **+125**, June 15 **-178**, June 21 **+109**, June 24 **-115**, June 27 **+109** and June 28 **+146**. There has been a battle between the bulls and the bears. Is the May – June decline just a correction within an upward trend or is it a reversal of the overall trend of the market?



Investors who follow an asset allocation model should have been holding onto their positions through the last couple of down months. Market timers would have been trying to decide if they should be all in or all out of the market.

How is the Green Label Portfolio different? It uses a tactical approach in an attempt to capture the best of both the asset allocation and market timing models. And it includes three different investment strategies, which look to reduce risk and improve returns. Each strategy utilizes technical analysis to determine entrance and exit points.

Even though June has been a down month, no new exit points have been triggered. The up days at month end were on light volume, so I have been waiting to confirm a possible new entrance point with larger volume on up days. It is looking like we will be putting cash balances to work soon.



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.

Do-It-Yourself Pension – Strategy NOT Included.

Barbara recently gave me a copy of an article out of **More** magazine, which is a newer publication for "women of style and substance." The article was from the April 2011 issue and titled, "**Create a DIY Pension**," with the subtitle "You've been saving diligently for retirement. How do you turn that money into a stable—and worry-free—source of support?"

Stay with me while I give you some of the article highlights and then add my own thinking to it. The article starts out talking about "**the three-legged stool of retirement**." The first leg is your pension, the second Social Security, and the third your own resources. **The first leg** has been knocked out from under you—this was the pension our fathers and grandfathers had, and these days is only common among government employees (one of the reasons our governments are failing). **The second leg**—Social Security—is getting more wobbly by the day and you may not want to count on it to support you.

The third leg is your own savings. The author advises that by "saving aggressively and investing intelligently, you can generate a safe, steady income stream in retirement." Then she goes on to talk about immediate annuities, I bonds, longevity insurance, and reverse mortgages.

Describing an immediate annuity, she says, "a 65-year-old woman could put down $1 million to buy an annuity today that would guarantee her a payment of $5,726 a month for the rest of her life." She goes on to say, "These products can be confusing, but in the simplest example, if the woman buys that annuity and dies five years later, the insurer pockets the rest of the money; if she lives to 105, the insurer is on the hook for all those years."

Regarding longevity insurance, the author says, "this is essentially an income-producing annuity whose payments don't begin until you're fairly old….a 65-year-old woman could turn a $1 million lump-sum payment today into a monthly paycheck of $23,902 beginning at 80. The return is so much higher than the return from an immediate annuity because the insurance company is betting many of us won't live to see that first check!"

I don't have the space here to comment on I bonds or reverse mortgages, but aren't you feeling much more confident after sampling this author's financial advice? Has she convinced you to run out and buy one or more of these annuities?? I certainly hope not!

Articles like this are written by journalists, not financial advisors. I think these insurance products are fine vehicles when **strategically designed and purposely fit into a comprehensive financial plan**. But my caution to you is, don't just read articles like this and make huge financial decisions based upon them. I also caution you against sitting down with a "financial advisor" whose primary source of revenue is insurance product sales commissions. You will be sold an insurance product—no matter what financial ailment you have.

Just to add a little strategic thinking to the above immediate annuity example… instead of putting all $1 million at risk (as noted, if you died a month later the insurance company keeps your $1 million), a better idea may be to purchase an immediate annuity which would provide an income sufficient to cover just your basic living expenses. Put the balance of your funds in a liquid, safe and growing investment—one that your *heirs* might benefit from some day (assuming you don't spend it all) rather than an insurance company. And don't feel you have to "do it yourself"—I'm here to help.