

tax & investment newsletter

September 2011

MONTGOMERY TAYLOR, CPA, CFP

In preparing for battle I have always found that plans are useless, but planning is indispensable. ~Dwight D. Eisenhower

Monty's Opening Thoughts...

When I was a kid, Roy Rogers was one of the most famous American cowboy performers. I suppose it helped that I grew up on a ranch and frequently got to ride horses, but I remember looking up to Roy Rogers and wanting to be like him, dress like him and have what he had (see p. 8!) You know the Roy Rogers cap gun and belt, the guitar, the hat, boots, etc.

Roy always represented the 'good guy' – the one in the white hat. As "King Of The Cowboys," he was more than just a voice on the radio or a face on the silver screen: Roy Rogers became the embodiment of goodness, fairness, and love of God and country, character traits reflected in his Rider's Rules.

Roy Rogers died in 1998 at the age of 87, so he is long gone. For those of a certain age, we can still look to his ideals. We grew up with those ideals and character qualities built in to us from parents, neighbors, school, church and even television. Did I just say "television?"

What popular public figures do we have to look up to today? Paris Hilton? Charlie Sheen? Tiger Woods? Diane Delano? Ron Lester? Barry Bonds? Should I mention Sponge Bob? Well, I don't know. I'll have to admit--I don't watch much television and don't know who the latest heroes are.

I've been reflecting on this as I hear, with more and more frequency, the news on the radio of riots, robberies, identity theft, elder abuse, hit-and-runs, etc. Whew! All these thieves must have missed The Roy Rogers Show (which ran from 1951 to 1957).



Okay, here it is. I'm kinda thinking that we and our school systems should practice less 'tolerance' and more of the Roy Rogers' Riders Rules. I'm ready for it, how about you?

Warm regards, Monty



Roy Rogers' Riders Rules

1. Be neat and clean.
2. Be courteous and polite.
3. Always obey your parents.
4. Protect the weak and help them.
5. Be brave but never take chances.
6. Study hard and learn all you can.
7. Be kind to animals and take care of them.
8. Eat all your food and never waste any.
9. Love God and go to Sunday school regularly.
10. Always respect our flag and our country.

*Happy Trails,
From Roy, Dale and Trigger*

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Staff News



Could you picture yourself as part of our staff? Even for part of a day? Long enough to maybe earn \$100?

THE JOB: We are looking for five people who would like to roll up their shirtsleeves and do some work. The job is to proof read, edit, critique, and suggest improvements to a packet of our marketing materials.

THE PAY: \$100

THE HOURS: As long as it takes you. Maybe a few hours.

THE BENEFITS: Free parking, comfy chair, coffee and the presence of our other fun and supportive staff members.

THE ELIGIBILITY REQUIREMENTS: You must be within a particular target market niche... age 55+, \$500,000 of investment assets (not counting real estate) and the kind of person who hires professional help—Attorney, CPA, or Financial Advisor. (We want you to be in the same demographic as this niche market, so you have a similar perspective to those who read our marketing materials.)

HOW TO APPLY: Send an email to Barbara@TaxWiseAdvisor.com and explain why you should be selected as one of our new staff members for this fun project.



Honest CPA Puts Me Completely at Ease

Monty has always been very informative. He always answers all my questions and he's able to explain things in a way that I can

understand them. He has the ability to put you completely at ease over financial situations, which sometimes aren't very easy to talk about. It's comforting working with someone like Monty, who you can trust.

I used to go to H & R Block for tax preparation. I felt like just a number there. I feel like those people are hired just for tax season and I'm not sure that they're very well versed with everything. With Monty, I feel like I'm getting more knowledgeable help as he's a CPA and very well versed in tax law.

I would tell anyone considering Monty's services not to hesitate. I think they will be as satisfied as I am.

~Nancy Roberts, Graphic Designer, Santa Rosa
(Testimonial from one of our CPA firm clients.)

Looking for tax and investment advice?

Check out Monty's blog at:

<http://blog.taxwiseadvisor.com>



Tax Strategy of the Month

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

Gift Tax Return? What Gift Tax Return?

On a fairly regular basis someone will contact me and tell me of their plan to give some money or property to



someone else, perhaps their child. They explain to me why they are doing what they are doing: in one recent case they wanted to get money out of their name because they may go bankrupt, in another case they were sharing an inheritance with a sibling, in another case they wanted to give their child some down-payment money for a home purchase.

Most people seem to have thought things through and rationalized their plan pretty thoroughly, except for one big hole. When I ask if they have filed gift tax returns, they say, “Huh?” Then I have to explain to them that Uncle Sam wants to know about their generosity.

Gift tax returns on **Form 709, United States Gift Tax Return**, must be filed by individuals for gifts exceeding the present \$13,000 annual exclusion amount and not otherwise exempt. A delinquency penalty under Code Section 6651 is due for failure to file a return on which a tax is due.

Each spouse must file a separate gift tax return for their own individual gifts. However, only the donor spouse need file if: 1) only one spouse made gifts of only present interests totaling twice the annual exclusion amount (or less) to any individual donee; or, 2) only one spouse made gifts of present interests totaling twice the annual exclusion amount or less to any individual donee, and the consenting spouse made only gifts equal to the annual exclusion amount or less to other donees.

The gift tax return is due together with the donor’s income tax return for that year, or by the time permitted by extension for the filing of the donor’s income tax return for the calendar year. The IRS may postpone the deadlines in certain disaster areas, and for certain military personnel.

For 2010 tax year returns only, the 2010 Tax Relief Act extended the deadline for reporting generation-skipping transfers for nine months, until September 19, 2011. Taxpayers under an automatic six-month extension for their 2010 income tax return until October 17, 2011, therefore, can combine their gift and generation-skipping transfer tax reporting on a single Form 709 filed with their income tax return under the extended date. Alternatively, an amended Form 709 gift tax return may be filed. Also since 2010, every person required to file a gift tax return has also been required to furnish an information statement to each person named in the return.

Gift tax returns have formed a significant part of the financial planning landscape for quite some time. The latest IRS *Statistics of Income Bulletin* reports that, for 2008, donors filed 235,000 returns on which a total of \$40.2 billion was transferred to 928,000 donees, primarily through direct gifts. Gifting techniques ran the gamut, from \$14.2 billion in cash, to \$7.4 billion in stocks, \$6.6 billion in real estate and \$1.7 billion in family limited partnership shares.



As long as gifts to each donee amounting to more than the annual exclusion are required to be reported on a gift tax return, similar generosity is likely to be recorded. The amounts likely will ebb and flow as people weigh the benefits of transferring assets for estate planning purposes now, rather than later.

Tax News You Can Use...



Tax Filing Reminders

- **September 15:** Third quarter installment of 2011 individual estimated income tax is due.
- **September 15:** Filing deadline for 2010 tax returns for calendar-year corporations that received an automatic extension of the March 15 filing deadline.
- **September 15:** Filing deadline for 2010 partnership tax returns that received an extension of the April 18 filing deadline.
- **October 3:** Generally, the deadline for businesses to adopt a SIMPLE retirement plan for 2011.
- **October 17:** Deadline for filing 2010 individual tax returns on extension.

Are Unemployment Benefits Taxable?

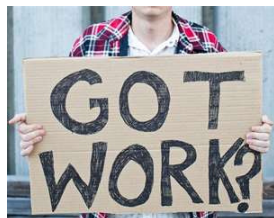
Unemployment compensation can provide a welcome buffer while you're transitioning to a new job. But with the help comes a tax effect, because the benefits provided under federal or state laws are usually includable in your income in the year you receive them.

As a result, depending on the amount of unemployment benefits you expect to receive, you may want to complete form W-4V, Voluntary Withholding Request, to have federal income tax withheld from your benefits. The withholding rate is generally 10%. You can also ask the unemployment office to withhold state income tax.

Alternatively, you can adjust or begin making quarterly estimated tax payments. The amount of unemployment compensation you report on your income tax return is also affected by benefits you have to repay. If you receive and repay benefits in the same year, you can subtract the repayment from the total you received.

However, if you make repayments in a year following the receipt of the benefits, the tax treatment depends on how much you repay, and can be claimed either as an itemized deduction or a credit against your current-year tax.

Please contact us if your employment situation changes. We can help with tax and benefit related issues such as severance pay, retirement account rollovers, and deductions related to job hunting.



Make the Right Pricing Decision

In business, making pricing decisions is always tough - and even more so when the economy is slow and sales are slipping. It's tempting to cut prices hoping to generate higher sales volume. But sometimes that just produces lower margins on a low volume. What do you do if you're being squeezed by cost increases? Can you increase prices in a slow economy? How do you respond if your customers complain? Can you justify holding prices steady if your competitors cut their prices?



There are no easy answers, but running through a three-step process can help you make the right decision.

1. Know your strengths. How does your product or product range stack up against the competition? Are your products higher quality, lower quality, or indistinguishable from your competitors' products? Do you have an edge that can justify higher prices?



How about all the other elements that make up your total service package? Do you provide a bigger inventory, faster delivery, better payment terms, wider product line, better service on returned items? If not, can you change your operations to gain an edge in any of these areas?

Consider holding a brainstorming session with your salespeople to go over these questions. The answers might point the way to pricing decisions, and they'll certainly give you good replies to customer pricing objections.

2. Put yourself in your customers' shoes. Try to understand your customers' needs. Are they under profit pressure? What changes are occurring in their industry? How can you adjust your products or service to add value for them - value that they might be willing to pay for? What are their alternatives if you raise prices? If your salespeople are staying in touch with their customers, they should already have the answers to many of these questions.



Tax News You Can Use (continued)...

3. Know your competition. Run through the same questions you asked about yourself applied to your competitors. What are their strengths and weaknesses? What can they offer your customers that you can't? How will they respond if you change prices?

Here again, your sales staff should have good information on the competition they face.



When you've worked through these three steps you should have a much better idea of the likely competitive effect of a price change. Run some profit scenarios and then review your pricing decision with your salespeople. Make sure they understand the rationale, and jointly rehearse how they'll present the change to customers.

Animal Lovers Win Court Case



If you provide care for stray or feral animals in your home for an IRS-approved charity, you may be able to take a tax deduction for your out-of-pocket expenses.

A recent U.S. tax court judge ruled that a taxpayer who fostered feral and stray cats in her home could deduct amounts she spent for food, veterinarian bills, litter, and other unreimbursed expenses incurred to help the charity in its mission.

An important requirement for such expenses to be deductible: the taxpayer must keep records of the expenses, and if they exceed \$250, the charity must provide a contemporaneous written acknowledgment of the expenses as a charitable donation.

The Humane Society hopes to get the word out on this case, stating that thousands of members do volunteer work such as this and spend their own money to support the mission of local animal shelters and rescue groups.

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

Find Last Minute Cash for College

Now's the time of year when new college students start buying notebooks, but after paying the year's tuition bills, notebooks could suddenly become unaffordable. What's a parent to do?

First, don't give up. College is worth the investment. By 2018 as many as 63% of all U.S. jobs will require a post-secondary degree, according to new research from Georgetown University, which found that the earnings gap between those with degrees and those without remains a vast chasm. College-educated workers can expect to earn \$1 million more over their careers than folks who stopped after high school.

Second, don't go crazy. Parents should avoid sacrificing their own retirement savings to send their children to college. Here are some last-minute techniques for lining up the cash for class:

Deconstruct the aid offer. Look at the financial aid package your child was offered. Accept the grants and work study, then carefully choose the loans that are your best deal; you are allowed to pick and choose what you want out of the package. If your family's financial situation has changed for the worse, go back to the financial aid office and ask for more money.

Go on a payment plan. Most colleges offer some kind of plan where you can pay monthly instead of the whole bill at once. That enables you to stretch out the payments (and the borrowing).

Be creative. Have your student use public transportation or biking as a means of transportation. Ask for student discounts. Buy used textbooks and re-sell them at the end of the semester. Hold a garage sale. Encourage your child to work during school vacations.



Hit up the extended family. If grandparents actually want to help pay for college, they can send their checks directly to the school and not have it count against the annual gift tax exclusion.

Cut extra expenses. Don't buy big meal plans for kids who are little eaters. Waive the college-sponsored health coverage if your child is already covered by your insurance plan.

If you'd like more information on how to pay the costs of college, call 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

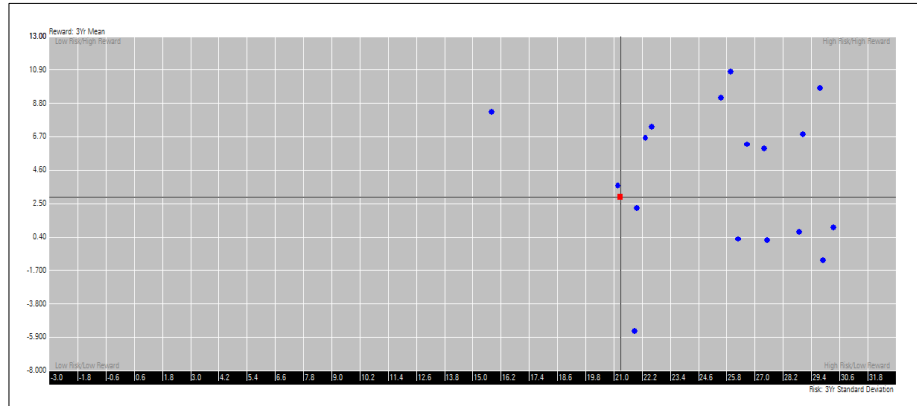
“Here’s an idea I think will save you money!”

Does your investment portfolio look more like a bullet-riddled target or a model of efficiency?

This first picture is not a target! It may look like some gunslinger on the Wild West frontier was doing some shooting, but that is not what it is.

This is a “Risk/Reward Scatterplot” of an investment portfolio brought in to me for analysis.

Now, you should know that the man who brought this in thought his portfolio was just fine. Yes, he says he’s lost some money, “*but hasn’t everybody?*” Besides, he has a professional money manager looking after it for him. He really just dropped it by my office because I offered to give him a free “**second opinion.**”

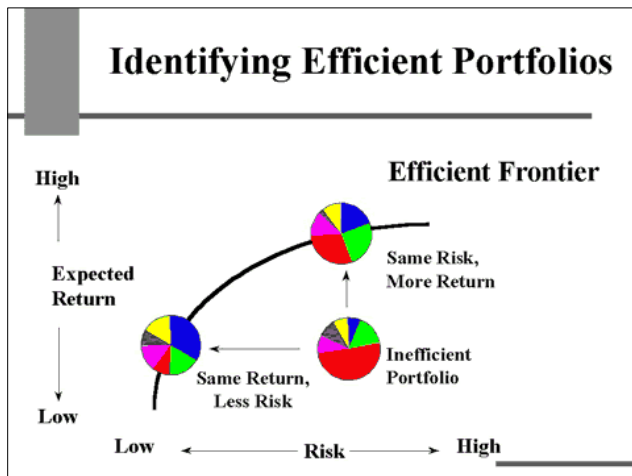
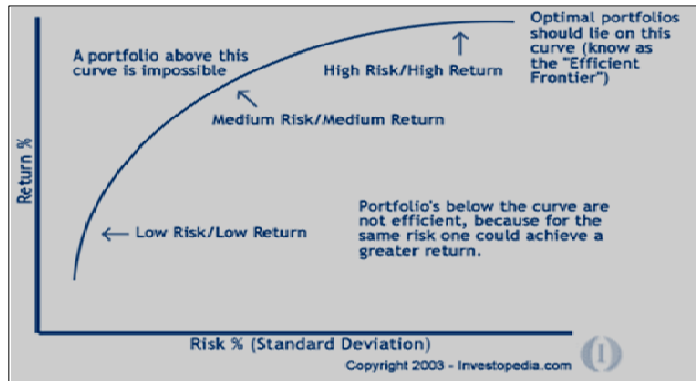


What you need to understand is that every investment achieves its level of reward (return) at some particular level of risk. The reward and risk of each investment can be plotted on a chart—that is what you see here. Each little dot is an investment. The intersecting lines mark the location of the S&P 500 Index. The further you go to the right on the chart, the higher the level of risk. The further you go towards the top of the chart, the higher the reward.

So, here is the question: Looking at the chart of this man’s portfolio, why would he continue to hold the investments in the bottom right corner? Each of these investments is taking on significant risk and yet is clearly not being rewarded for it. Wouldn’t it make more sense to sell those investments in the “bottom right” and add to the investments in the “top right?”

Making that move—selling the investments in the “bottom right” and adding to the investments in the “top right”—would give you a number of investments each being rewarded at a higher level than the S&P 500 Index and taking on more risk as well. At least you’d be getting rewarded for the risk you’re taking.

You don’t like that much risk? Okay, how about looking for new investment choices which are in the top left corner? Any investment options found here would be rewarded above the S&P 500 Index, but with significantly less risk. **Ah, now we’re talking...less risk, more reward.**



The second and third pictures here show the application of what I’m getting at. Ultimately, you want your portfolio on the “**efficient frontier.**” This is where you get the most bang for your buck. Why would you want an investment which is not being rewarded appropriately for the risk taken?

If I’m not managing your investments and you too would like a “second opinion,” bring me your current investment statements and I’ll run the analysis—it’s free.



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



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

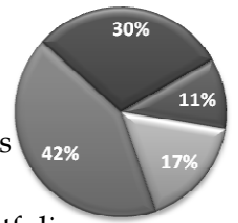
During the first two weeks of August, I took steps to reduce our exposure to stocks down to 17%. This is in line with my Tactical Asset Allocation approach to investment management which takes into account, and adjusts with, the current economic and stock market cycles.

It seems that all the debt ceiling media coverage was steering attention away from the real underlying weakness in the economy. Since QE2 ended on June 30th the economy has been slipping, breaking stock market supports as it goes. We seem to be getting the long-feared double dip in the recession. Most likely the Fed will come back with a QE3 rescue attempt. QE3 will weaken the Dollar and boost stocks... but this may take a couple of months.



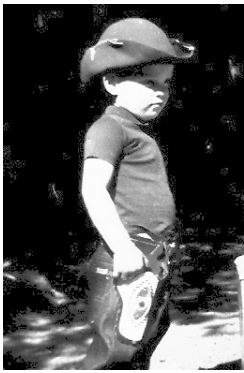
In mid-August, I began using the proceeds from the stock sales to purchase new positions in short-term bond funds – less than five years. The shorter the duration of the bond, the less susceptible it is to price fluctuations. Each new bond fund was selected for its optimum position on the efficient frontier. (See page six for an explanation of the efficient frontier.) These bond funds also held up very well during the 2008 market correction – this is important considering how shaky the stock market has been lately.

The asset allocation is now at 17% Stocks, 42% Bonds, 11% Commodities and 30% Cash.



As of August 25, the Green Label Portfolio was down -2.80% month-to-date, while the S&P 500 Index was down -10.11%. On a year-to-date basis, we are up 1.95% and the S&P 500 is down -6.63%.

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.



Cowboy Monty, Age 3

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.

A PRIME TIME TO REFINANCE

15-year mortgages haven't been this cheap since the Fifties

On August 18, rates on 15-year FRMs were averaging 3.36%. Freddie Mac reported the lowest interest rates in at least 50 years in its August 18 Primary Mortgage Market Survey. In fact, it noted record lows across the board. Rates on conventional 30-year home loans were averaging 4.15% on August 18. (The last time 30-year mortgage rates were this minimal was during a stretch in 1950-51 when FHA-backed 30-year FRMs averaged 4.08%. Do you remember this? I'm a little foggy on it.)



You can chalk these new lows up to skidding Treasury yields. In fact, the yield on the 10-year note actually dipped below 2% for a moment on August 18.

Those able to refinance are seizing the moment. The Mortgage Bankers Association reported that refi applications rose by 30% in the week ending August 5 to the highest level seen so far in 2011.

If you can do it, keep your long-term goals in mind. Years ago, a refi came down to one factor: if you could knock a couple of percentage points off your interest rate, you did it. Today, it's a bit more complex. There are three aspects to consider: a) how much you can save per month, b) lender points and fees, and c) how long you intend to live in your home.

Let's say a refi frees up \$150 for you each month. Sounds great, right? It isn't so great if the mortgage company tacks on a point up front (think \$1,500-5,000, depending on the amount of your loan) and a few hundred dollars in fees. If you're only going to stay in that home for a few more years, that refi is hardly worth it.

If you plan to live in your home for many years, then it's a different story; you may be poised for substantial savings. This is a simple example, of course. If you are moving from a 30-year loan to a 15-year loan or vice versa, or if you are among those getting out of "ARMs way" and refinancing into a fixed-rate mortgage, you've got more variables to think about.

How long will rates stay this low? It is truly hard to say; recent history has illustrated that. On April 10, 2010, a *New York Times* headline blared: "Interest Rates Have Nowhere to Go but Up". At that time, the average rate for a 30-year fixed mortgage was 5.31%. Look where it is now.



Could rates go even lower? If 10-year Treasury yields were to fall even further, that could happen. While the Federal Reserve wants to refrain from QE3, it could again print money and buy Treasuries to cheapen the dollar and help the stock market.

However, the Consumer Price Index rose 0.5% in July – the biggest increase since March - with annualized inflation running at 3.6%. The Fed's informal inflation target is 2%, so a gap like that would seem to preclude a QE3.

Of course, the Fed has pledged to keep near-zero interest rates in place into 2013 on the expectation that inflation will decline – half of the 0.5% jump in the July CPI could be traced to the rise in retail gasoline prices.

Through the years, bond investors have often gauged interest rates on conventional home loans by adding about 1.7% to the current percentage yield of the 10-year note. On August 17, Dow Jones Newswires polled bond dealers to get a consensus forecast for the 10-year Treasury yield; they expect yields to end 2011 at 2.5%. Some fund managers and strategists feel that benchmark Treasury yields could end the year under 2.0%. These forecasts imply rates on 30-year FRMs of anywhere from 3.6-4.2% by around New Year's Eve.

Rates will move north at some point, so a window of opportunity beckons—and no one really knows how long it will stay open.

Think before you make a move. Before you get out that pen and sign anything, talk about your options for refinancing with a qualified mortgage specialist, and talk to us to see how your choice to refinance relates to your overall financial situation.