FINANCIAL MUSINGS

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New credits may mean larger refunds!

Get out your long distance phone bills. The IRS lost a tax case regarding the federal excise tax that was being charged on your phone bill. This tax originated in 1898 to fund the Spanish-American war. On your 2006 tax return you will be able to claim a credit for the federal excise tax paid on long distance phone service from February 28, 2003 to July of 2006. You will be able to claim a standard amount or the amount of tax that was actually paid, whichever is higher. In most cases the amount of tax actually paid will be higher.

There is also a new $500 energy credit available in years 2006 and 2007. The credit is for residential energy property expenditures to your primary residence only. It includes improvements such as insulation, new windows, water heaters, furnaces, central air conditioners, residential exterior doors and main air circulating fans. No more than $200 can be claimed for windows and no more than $150 can be claimed for furnaces.

The standard mileage rates for 2006 are business mileage—44.5 cents, charitable mileage—14 cents, medical and moving mileage—18 cents.

Changes have been made to the kiddie tax also. Prior to 2006 if your child was 14 or older any investment income was taxed at the rate of the child. If the child was under 14 any investment income in excess $850 was taxed at the parents' rate. Now that age has been raised to 18. If your child is under the age of 18 any investment income in excess of $850 will be taxed at the parents' tax rates rather than the child's tax rate.

More complicated all the time!

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Special points of interest:

- *Tax appointment cards will be mailed in early January. If you cannot make your appointment please call to reschedule for another date and time.*
- *Don't forget about the referral contest. The one who sends me the most referrals between August 1 and April 15th of 2007 will receive a $100 gift certificate to the restaurant of their choice. If you need more referral forms let me know and I will get them to you.*

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Are you HIPAA compliant?

In the past several years as you have gone to doctors, dentists or health care professionals you have signed HIPPA (Health Insurance Portability and Accounting Act) disclosure authorizations. These allow the professionals to give information to places that need it such as insurance companies or specialists..

One area that you might not realize that you need to update is your power of attorney and health care proxy. When HIPPA made major changes three years ago language was added to these documents. Without that language in the documents they are not compliant. If it has been more than three years since you signed your power of attorney and health care proxy, contact your attorney and get these forms updated. And while you are at it make sure your estate plan is still what it needs to be.

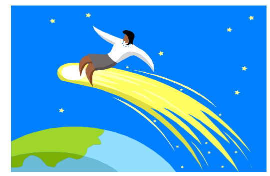
Write it down!

Do you have dreams? Things you want to accomplish? It could be anything from going on that dream vacation to Disneyland or finally getting that garage cleaned out. If you have a goal you have a significantly better chance of accomplishing whatever it is if you write it down.

Lets say you want to go on a dream vacation that will cost you $3000. You would like to go next April during spring break. That is six months from now. So break it down. You need to save $500 a month. Since there are four weeks in a month that means you need to save $125 per week. Take a $125 a week when you get your paycheck and put it into a separate bank account. Post notes around that say Disneyland. Make sure you see them wherever you are about to spend money. Ask yourself each time is it more important to go see that movie in the theater or to save that $30 into your vacation fund? If you cannot save the $125 a week then you may need to rethink your goal.

The key is writing it down. Put the goal where you will see it. It needs to stay in the forefront of your mind. It works whether you want do well on a test or save for a down payment on a house. Write it down, figure out the smaller steps and work through them in the timeframe that you have.

Maybe it appears big and impossible. Break it into smaller, easily accomplished steps. Little by little you will get closer to your dream.



Reach for the stars

Receive a letter from IRS?

Letters from the IRS or NYS certainly do not give you a warm, fuzzy feeling. Ignoring it will not make the IRS go away, it will increase your problem. Letters generally are seeking additional information, asking minor questions, sending you a refund, notifying you of an adjustment to your return or wanting to schedule an appointment for an audit. IRS never initiates correspondence with taxpayers via email. If you receive such a request ignore it.

Studies show less than 1% of the correspondence received ever end in an audit. Over 90% of problems are handled with no money ever being paid to the IRS.

Should you receive a letter from IRS or a state taxing authority the first step is to notify me. I will need to see a copy of the correspondence to determine what it is IRS is saying. We can then determine our course of action. Do not simply pay the IRS to "get them off your back". Thousands of taxpayers pay these notices when the amount turns out not to be true. There is no additional fee for me to review correspondence, it is part of the service you have already paid for.

> *90% of problems are handled with no money ever being paid to the IRS.*

Oftentimes a letter from us to IRS or NYS resolves the issue with no tax being due. Sometimes it takes more than one letter, but we will persevere.

You can do it!

Are you drowning in debt? Start the new year right. Make this coming year that you have less debt at the end of the year than you did at the beginning of the year.

Two steps that you can take to improve your situation. First—when you go shopping leave your credit cards at home. Take a debit card with you if you do not want to carry a lot of cash. If you really, really need it you can always go back to the store and get it. Most of the time you will get home and it is not worth the effort to go back out.

Second—stop paying just the minimum payments. For many cards that would mean taking 20 or 30 years to pay it off. If you can afford to send in a minimum payment of $150 this month then you can afford to pay $150 next month when the minimum payment might only be $135. Make a pact with yourself to always pay the amount equal to your new purchases (which there should be none based on the first suggestion) plus a predetermined amount to get the old debt paid off.

Stop idle shopping

I am not saying it will be easy. It took some of you a long time to accumulate your debt. Just like taking off those last stubborn 10 pounds it takes discipline and willingness. You can do it. Start taking steps in the right direction instead of burying your head and ignoring what is going on.

Is it time to refinance your life insurance policies?

Why do you have this amount of life insurance? Why do you own this kind of life insurance whether it is term, whole life, universal or variable universal? What is the purpose of this insurance? How much insurance do you want in force when you die? These are important questions that you need to be asking yourself about the life insurance policies that you currently have in place.

And if your policy is more than five years old you should be asking yourself if you are getting the best bang for your buck. Prior to 2001 the insurance companies were using mortality tables based on 1989 life expectancies. In 2001 those tables were updated to reflect our longer life expectancy. Additionally changes to actuarial guidelines have lead to a decrease in premiums.. Oftentimes you can get better coverage at a lower cost.

As a certified financial planner I can review your life insurance policies. Just like you refinanced your mortgage when rates were low you should consider if it is time to "refinance" your life insurance policies. We would need to sit together for 30 minutes or so to answer some questions. I would take a week or two to review the policy and we would get together again to go over the results. If I can save you premium dollars or increase the death benefit amount, I ask that you consider letting me rewrite the policy. Call for your appointment today.

Is your policy old and outdated?

Should you give your child an allowance?

An allowance can be a great teaching tool for your child. He can learn how to count change, how to save for special toys that he wants, and the virtue of giving. Here is what we did with our son Mike. He got a dollar of allowance for each year old that he was. He was responsible for putting 10% into a college account, to give 10% to the charity of his choice and the rest he does with whatever he wants.

I do not buy him any toys. I do not fund his addiction to video games or arcade games. I do not fund his need for chocolate. If he wants something, Mike must purchase it himself. If he wants something that is more than his weekly allowance, he needs to save until he has enough money to purchase it himself. I started when he was very young, but this will work at any age.

The lessons are only taught if you stick to the agreement of not buying anything other than at Christmas and for birthdays. You may find you actually spend less money than you did when he was asking " Mom can I have money for ...?"

> *Some suggest the amount of the allowance be equal to the age of the child.*

You should consider if you want to tie chores to receiving the allowance. With Mike every time he got a raise in his allowance he also received a new job. These jobs can get progressively harder as the child grows older and can be used to teach new skills.

Keep or Toss?

What should you keep and what can you toss when it comes to tax returns? Keep completed copies of your tax returns and attachments for seven years. Keep records such as receipts that track expenses, determine the value of property or support any numbers made on your tax return. You can safely toss other paperwork in the trash or shred it. No need to keep electric bills, telephone bills or credit card statements unless you are claiming deductions for these items on your tax return.

Not everything needs to be saved!

Statements that affect future transactions should be kept until seven years after the affected assets have been disbursed. These include investment account statements that establish cost basis and home improvement expenses. Also any documentation that establish values for gifts and inheritance should be kept until seven years after the asset has been transferred.

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Gerri Harrison
Financial Services

Relax, I am here to help you

I am stepping up to the plate. Being out on my own I realize that I want to give first class service to clients. Many know me only as your tax preparer, but I can do so much more than that. I can answer questions regarding all types of financial matters—from whether you should lease or buy that auto to should you refinance your mortgage to teaching you how to get out of debt. If you have a financial question I want you to think of me first. If I do not know the answer I will work to find the answer for you. As a certified financial planner I am also in the position to help you get your financial life in order. I have the worksheet and software tools available that I can use to integrate your financial life with the rest of your life instead of your financial life ruling everything. The question is now “how can I help you?”

Pay yourself first!

What bill should be the first bill you pay each month? The “bill” that should be paid first is the one for yourself. Are you one of those individuals that always say you will start saving as soon as the credit cards are paid off or all debt is gone. Guess what? Studies show that if you wait your likelihood of ever starting is small. As our income grows we expand our spending until we have “used up” the additional amount received.

So—pay yourself first. The recommendation is that you save 10% of your net pay. If you cannot start that big then try even 2 or 3%. The key is to make it automatic. Have the amount deducted from your paycheck or from your checking account. Put it into a separate account and make it difficult to access that account. Use a bank that is out of town or across town from where you normally do your banking. Or use an Internet bank like IngDirect.com and bank electronically.

You will be amazed how quickly it adds up

Accumulate an emergency fund so that you do not have to run to your credit cards every time a crisis arises. Start saving for a special vacation or for retirement. Start saving for your child’s education. Be serious about not touching the money unless you really have to.

If you are starting with less than 10% of your net pay then set goals to gradually increase the percentage. Agree to increase the amount once a month or once a quarter until you have reached the 10%. Or really become a saver and reach for 15% or 20% of net income.

Don’t wait. Start now.   Just as we increase our spending when we have additional income we decrease our spending as less income becomes available. The key is to make it automatic so you cannot get sidetracked. Are you not more important than the telephone bill or the electric bill? Pay yourself first.