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MENTOR
C A P I T A L

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Mentor Monthly Missive

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Tax planning starts now

What's your greatest monthly expense? If your answer is your mortgage payment or child care or (God forbid) Starbucks lattes, you're probably wrong.

It's taxes. When you figure that from your wages, Social Security and Medicare take as much as 7.65%, the federal government takes up to 35%, state government takes 3%; your local governments take thousands in property taxes; and your sales tax can be as high as 10.25% - it's a wonder that there is anything left for the lattes.

That's why it is important – now – to start planning ways to manage your taxes. Tax planning is part of the wealth-management process as practiced by our advisers, and is designed to help you keep more of what you make.

Because federal taxes are the ones over which we have the most control, and those that can take the largest bite out of our cash flow, it's the best place to start. Here is a rundown of what's in store for 2009, and some ways you can use the federal income tax laws to your advantage:

'I will gladly pay you tomorrow, for a hamburger today' - Wimpy

It's usually best to accelerate deductions and defer income, whenever possible. That's because a tax break today is usually worth more than a tax break tomorrow. However, for taxpayers with fluctuating income, it can be beneficial to accelerate income and defer deductions. Look at your highest marginal bracket for 2009 and project what it will be in 2010. If you expect to be in a higher bracket in 2010, it may be to your advantage to accelerate income into 2009 and defer deductions into 2010.

Brackets adjusted up

Every year the IRS adjusts income-tax rates, applying CPI increases to each of the brackets. For example, for 2008, the top of the 25% bracket was \$131,450; in 2009, it will be \$137,050. It's important to know what bracket you're in, so that you can calculate the tax benefit of contributing to a 401(k), for example, or making a charitable contribution. Low-bracket taxpayers get less benefit than high-bracket taxpayers from their deductions and exemptions.

Gift and estate taxes

For 2009, the exemption from estate taxes rises from \$2 million to \$3.5 million. The annual gift-tax exclusion rises from \$12,000 to \$13,000. These are important numbers for high-net-worth taxpayers to keep in mind as they manage their estates.

Retirement account, plan limits

For 2009, the maximum IRA contribution remains at \$5,000 (\$6,000 for taxpayers who turn 50 or older during the year). The limit for 401(k)s rises to \$16,500 (\$22,000 for those 50 or older). For SIMPLE plans, the limit rises to \$11,500 (\$13,000 for those 50 or older).

Sales-tax deduction

Congress has extended for 2009 a provision that allows taxpayers who itemize to deduct sales taxes, rather than income taxes when claiming a state and local tax deduction. This is important especially for retirees who pay little or no state taxes, and for all taxpayers who make substantial purchases – for example a car or boat – during the year.

Alternative Minimum Tax

Congress again in 2008 implemented a one-year patch to give taxpayers relief from this onerous tax. Unless a permanent fix is put into place, our esteemed representatives will have to patch again. If they don't, large numbers of moderate-income taxpayers will be snagged.

Avoiding underpayment penalties

Sound tax planning means being careful not to withhold more than your liability; over withholding equals an interest-free loan to Uncle Sam. However, under withholding can expose you to penalties and interest. Safe-harbor federal tax withholding thresholds remain in place for 2009: For taxpayers with adjusted gross income (AGI) of \$150,000 or less, withholding either 100% of your previous-year liability or 90% of your current-year liability gets you off the hook. For taxpayers with AGI of more than \$150,000, the safe harbor is 90% of the current-year liability or 110% of the prior-year liability. Where pinpointing current-year income is difficult (due to late-year bonuses or investment income), it's often best to go with meeting the prior-year liability test.

Investment income

For 2009, interest and short-term capital gains will continue to be taxed at ordinary-income rates. For taxpayers in the 25% bracket or higher, qualified dividends and long-term capital gains will be taxed at 15%; for taxpayers in the 15% bracket or below, the rate is 0% - that's right, there is no federal income tax on capital gains or qualified dividends for these taxpayers.

Child-tax credit

The child-tax credit for dependent children younger than 17 remains at \$1,000 in 2009. The credit begins to phase out when AGI reaches \$110,000 (married filing jointly).

Social Security wage base

For 2009, wages up to \$106,800 are subjected to Social Security tax – 6.2% for the employee, 6.2% for the employer. This is up 4.71% from the \$102,000 wage base in 2008. Medicare taxes – 1.45% for the employee, 1.45% for the employer – are applied to wages without limit.

Charitable donations

No deduction is allowed for charitable donations of property unless the property is in good or better condition. If donations of property for the year exceed \$500, you must attach Form 8283 showing the donee, the donee's address, a description of the property, value of the property and how the value was ascertained. Cash donations to any qualified charity must be supported by a dated bank record or a dated receipt from the charity that includes the name of the charity, date and the amount of the contribution. Congress also extended through 2009 a provision that allows tax-free charitable donations of IRA assets not to exceed \$100,000 for taxpayers older than 70½.

Phase outs

As always, your AGI can trigger phase outs of a number of tax items. These include itemized deductions, personal exemptions, the child and other tax credits, tuition and fees deductions, and the ability to contribute to an IRA. Items that can reduce AGI include contributions to qualified plans and deductible IRAs, health insurance premiums, flexible spending account contributions, educator expenses, Health Savings Account contributions, penalties on early withdrawal of savings, alimony and student-loan interest. Items that boost AGI include wages, investment income (both ordinary and capital gain), state tax refunds, alimony received, self-employment income, pension income, IRA and qualified plan distributions, and rental, royalty, partnership and small-business income.

Worried about whether you are doing all you can to minimize taxes and increase spendable income? Call one of our advisors to see how we might be able to help you.



If it sounds too good to be true...it probably is

Have any of you noticed the “Better Trades” infomercials that periodically show up on local television? We certainly have noticed them because they periodically run on several channels over the course of a few days in advance of “free” sessions being offered by Better Trades at local hotels.

From the start, we were extremely skeptical about what Better Trades (“BT”) says in their infomercials, and decided to do some more research about the real truths behind the company.

The BT infomercials make it sound as if it's easy to make lots of money if you invest using their system. One person in the infomercial mentions something about an expectation of earning 10% per month – sounds enticing, doesn't it? Their infomercials also include several people commenting about how easy it was for them to make very profitable trades using the BT system.

Based on what we've read on various websites – mostly having to do with “ripoff” schemes – here's what we've learned about BT:

- They offer a “free” seminar at a local hotel, but toward the very end of the seminar you're told that to be successful with their trading system, you should attend a two-day seminar that will cost about \$3,000 if you sign up for it (and pay with your credit card) that same day, or about \$4,000 if you don't sign up that day. (So, they make you think that you're getting a great deal by signing up right away.)
- During their (expensive) two-day seminar, the pace is frantic as the instructors overwhelm the attendees with tons of information. They do this on purpose so that they can push their “tools” that will cost you an additional \$6,000. So, if you attend the two-day seminar and purchase the tools, you're already out at least \$9,000.
- During the two-day seminar, they also attempt to persuade you to purchase expensive legal packages that help you incorporate yourself and set up your estate.
- They offer online “free” classes to “help” you learn how to use their tools, but the classes are really teasers that provide little bits of information while the instructors push their own seminars that cost thousands of dollars. These instructors also have their own websites where they offer costly seminars, books, and more.
- They also push online classes that cost \$99 each.
- The people giving testimonials in their infomercials are actually employees of the company.

While BT's infomercials might lead you to believe that you can easily make lots of money trading in the stock market, it turns out that they want you to fork out thousands upon thousands of dollars for their tools and seminars.

Two main points jump out when we consider all of this.

First of all, if the BT system really works, why would they teach others how to implement it? Wouldn't they want to keep all of this quiet so that they can become wealthy by trading the BT way? (Instead, some of the BT employees are becoming wealthy by selling expensive seminars and tools to the general public.)

Second, there is no easy way to make money in the stock market, especially when it comes to trading options. In fact, options trading involves a substantial amount of risk, much more risk than is involved when trading stocks. In some cases, you can lose an infinite amount of money trading options. It's likely that many of the people who fall for the BT sales pitches don't realize how risky it is to trade options – and how risky it is to fork out thousands of dollars for a so-called “easy” way to trade.)

If there were an easy way to make money in the stock market, this would have previously been validated through objective and thorough research, and we'd be seeing many financial advisors using the “easy” way to help their clients.

This sales pitch by Better Trades is yet another way to convince people to part with lots of their money for something that sounds too good to be true. As with the many other infomercials about investing and real estate that you see on TV, your best move is to ignore them and keep your wallets and pocketbooks tightly closed.



Mentor Capital expands income tax practice

Mentor Capital Management Inc. is expanding its income-tax practice.

If you are interested in efficient, economical tax-preparation services, with a financial-planning orientation, please call and we will send an organizer.



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