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WISHING YOU MANY HAPPY (TOTAL) RETURNS

By Loren Kayfetz, President, CERTIFIED FINANCIAL PLANNER®

The past few months have been taxing times. Every year, we all have to prepare our taxes, or prepare to prepare our taxes. By the time you read this, you have either done the process, or at least made a good faith effort to determine what your 2009 tax obligation will ultimately be.

With so many changes already scheduled in the tax system in the years ahead, we will be touching a lot on taxes and what to do to minimize their effect on a regular basis. Then there are more changes likely to be legislated, so planning for them is a dynamic process. My colleagues Erin Hadley and Nicole Hanson write in this newsletter about some specific areas for your planning purposes. But I want to talk about something more global.

Ultimately, it is not a dividend or interest rate, capital gain or other measure you need to be concerned about. It is the after tax and after inflation total return. What did you invest, when, for how long, and after paying taxes on any portion of the gain, what did you really make? And, what is your real return taking into account inflation? These are among the most confusing aspects of investing.

It seems simple to put money into a bank account, watch it earn interest, and calculate your return. Yet even that seemingly easy calculation requires additional thought. What taxes did you pay on the interest each year? What as the effect on inflation on your principal? The bank account may seem the least risky, but often it is not.

I will readily admit that there is no easy way to explain investment risk and total return and why it is important to consider what your investment goals are. Yet the last three years have caused many people to fundamentally change the way they consider their investment decisions. An excerpt from recent story in Morningstar Advisor Magazine might help describe the dilemma:

In 2007, a happy investor sitting on top of five years of gains visits her financial advisor. "Things have gone great," she says. "What should we do next?" "Nothing," says the advisor. "Stick with the plan."

In 2008, the same investor, now distraught over the unfolding financial calamity, accosts the same advisor. "You idiot! The world is ending and you told me to do nothing! What now, smarty pants?" "Nothing," the advisor says. "Stick with the plan."

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Build a personal relationship with us.

2010 TAX CHANGES IN MOTION

By Nicole Hanson, CERTIFIED FINANCIAL PLANNER®

While we can all breathe a sigh of relief that another April 15th has passed, there a few major tax changes this year as well as some changes coming in 2011 that you may want to plan for**. These changes may be revised again by the end of the year, so it's best to consult with your tax accountant or CPA for more information before you take action.

WHAT IS CHANGING IN 2010?

Roth IRA Conversions are Allowed Regardless of Income

Starting in 2010, anyone can convert from a traditional IRA to a Roth IRA. Conversions are fully taxable at your regular tax rate. For conversions in 2010, taxpayers can spread the tax due over two years. Half the tax will be due in 2011, and the remaining half will be payable in 2012. Interestingly, a taxpayer with income too high to contribute directly to a Roth is be able to contribute to a traditional IRA (which does not have income limits for contributions) and can immediately convert to a Roth.

The Required Minimum Distribution is Back!

After a one-year reprieve due to the down market, the RMD has been reinstated for people over 70½ and who have inherited an IRA.

Estate Tax is Repealed

The federal estate tax is eliminated for estates of individuals who die in 2010. However, the step-up in basis at death is also eliminated, so those who inherit assets in 2010 may end up paying a lot of capital gains taxes when they sell those inherited assets.

Tuition and Fees Deduction is Eliminated

The deduction for up to $4,000 of college tuition and fees expires after 2009, unless Congress chooses to extend it. Bear in mind this deduction is subject to income limitations: $65,000 for single tax payers and $130,000 for those who file married filing jointly.

Tax Bracket Thresholds Increase Slightly

For example, for a married couple filing a joint return, the taxable income threshold separating the 25 percent bracket from the 28 percent bracket is $137,300, up from $137,050 in 2009. This means that a little more of your income will be taxed at a lower rate.

WHAT'S ON THE HORIZON FOR 2011?

Credit for Energy-Saving Home Improvements is Reduced

The 30 percent tax credit (up to $1,500) of the cost of energy-saving home improvements reverts to 10 percent after 2010, and is capped at $500. If you've been thinking of doing some energy-saving projects in your home, 2010 might be the year to do so. There are more limitations to this credit, so check with your tax advisor before making your upgrade.

Section 179 Expense Deduction is Reduced

For business owners, the maximum amount of equipment placed in service that you can expense drops to $25,000 in 2011, down from $135,000 in 2010. This means that if there is any equipment or office furniture that your company needs, 2010 might be the year to make those purchases and put those items into service.

Mortgage Insurance Premiums will no longer be deductible

The special itemized deduction for mortgage insurance premiums paid on mortgages taken out after 2006 is set to expire on Dec. 31, 2010. Now might be the time to pay down your mortgage so you are no longer required to carry PMI.

Higher Tax Rates Are Scheduled to Return

In 2011, tax rates we return to the tax rates of 2001. The top income tax rate goes back to 39.6 percent, and we lose the low 10 percent bracket. This isn't set in stone and will be hotly debated in Congress this year.

Estate Tax Revived

For individuals who pass away in 2011, the federal estate tax returns with a $1,000,000 exemption and a 55 percent maximum rate. The step-up in basis will likely return as well. We will probably see Congress make changes to this during 2010.

Capital Gains and Dividend Tax Rates will Increase

The tax rate reductions for long-term capital gains and dividends are scheduled to expire this year:

- In 2011, the maximum long-term capital gains tax rate goes back up to 20 percent from 15 percent.
- In 2011, all dividends will be taxed as ordinary income.

Changes in 2010	
Roth Conversion	Allowed at any income level
Required Minimum Distribution	Reinstated for 2010
Estate Tax	Repealed for 2010
Tax Bracket Thresholds	Increase slightly

Changes in 2011	
Tuition and Fees Deduction	Repealed
Section 179 Expense Deduction	Reduced to $25,000
Deduction for PMI	Repealed
Estate Tax	Reinstated for estates over $1 million
Tax Rates	Increase
Capital Gains Rates	Increase from 15 to 20%
Dividends	Taxed as ordinary income

***tax data comes from the IRS and Intuit websites*

Reducing Taxes

By Erin Hadley, Certified Financial Planner®

Taxes took a big bite this year? Think you can't do anything until next year? Think again...

Most of us have just filed our tax returns so we're painfully aware of just how much of our hard-earned income went to Uncle Sam.

Even if you don't owe at tax time, you still catch a glimpse of that very large number on page 2 of the 1040, the total tax and somehow that total dollar amount has more of an impact than that vague percentage kept in the back of the head that represents your tax bracket.

And although your tax advisor (or Turbotax) assures you these figures are correct, certain thoughts may start to nag at you, such as: Do others pay this much? There must be other ways to reduce what I pay? Isn't there something more I can do?

Well, there is. Aside from your personal and dependent exemptions and homeowner related deductions, one of the most powerful ways to shelter income is with a retirement plan. If you're already covered by a plan through your employer, that's good news, the more you contribution to it, the more you save on taxes.

Be Fulfilled

Don't have a plan at work because you're a business owner or you're self employed? There are several options, one of which can still be done even though April 15th has already passed us by:

SEP IRA: A "Simplified Employee Pension" type of IRA is one a business owner may adopt for the owners and the employees. You still have time to set this up because the deadline to do so is not until the filing deadline of the employer's tax return, including extensions. SEP's don't require administration; the paperwork to set one up is quite simple. An employer may contribute up to 25% of an employee's wages or $49,000 in 2010, whichever is less (approximately 18.6% of net profit if self-employed; see IRS Publication 560 for the worksheet to determine exact amount.)

Even if you can't do anything this year, you can save yourself from feeling this same pain next year. Here are some options:

SIMPLE IRA: A "Savings Incentive Match Plan for Employees" is another IRA variation which an employer (of a business with up to 100 employees) can establish; it is easy and inexpensive to set up and operate. The employer must contribute (either 3% of pay or 2% nonelective contribution for each employee) and the employee may contribute (up to $11,500 in 2010.) A SIMPLE may be set up any time between January 1 and October 1. See IRS Publication 560 for more details.

SAFE HARBOR 401(k) Plan:
Another plan that's easy to operate and can be established by an employer with one or more employees is this version of a 401 (k.) Employers may match employee contributions dollar-for-dollar up to 3% and 50 cents on the dollar on the next 2%. Alternatively, the employer can make a nonelective contribution equal to 3% of each employee's compensation. Employees can contribute up to $16,500 in 2010. Contributions are 100% vested when made.

Don't have a plan at work because your employer doesn't offer one? You can make a deductible contribution to:

Traditional IRA: An "Individual Retirement Arrangement" is designed for the individual. To be eligible, one must have earned income and can contribute up to the amount of this earned income or $5,000 in 2010, whichever is lower. There is a "catch-up" amount of $1,000 allowed for those age 50 and above. Even if you are "covered," meaning you have a plan available to you through your employer, whether you participate in it or not, you can still make a deductible contribution to an IRA. Be careful though, the deductibility is affected by very specific upper limitations to your income, and these figures differ depending upon whether you are covered, your spouse is at their work place or both of you are.

Your tax advisor may have come to you and said something along the lines of: "the bad news is, you owe money to the IRS this year; the good news is, you can reduce what you owe if you contribute to your IRA." While it's a terrific opportunity, most of us don't have an extra $5,000 to $10,000 on hand to shell out just for this purpose. Yes you can contribute less than the maximum, but you won't realize the full tax benefits by doing so.

Here's another way: instead of waiting until next April, you can begin making your 2010 contributions starting right now: you can set this up to happen automatically every month from your bank to your IRA account at TD Ameritrade. This means less coming out of your wallet at a time and, when tax time comes around next spring, you'll have already made your contribution and can just sit back and enjoy the deduction for it.

The other advantage of contributing monthly rather than all at once comes from what is known as "dollar-cost averaging." Because you are contributing a fixed amount each month, you buy fewer shares when the price of the investment is higher and you buy more shares when the price is lower.

Of course there are other types of retirement plans; the intent here is to highlight some of quickest and easiest, as well as to help identify what you can do *now* to make *next year's* tax time easier.

Wishing you Happy Returns (continued from pg. 1)

At the end of 2009, the much-relieved investor returns to her advisor beaming over the gains of a strong rally. "You're a genius!" she exclaims. "What do we do now?" "Nothing," the advisor says.

"What the heck?" the investor responds. "No matter what the market does, you tell me to do the same thing: nothing. What am I paying you for?"

"To keep you from doing anything," the advisor says.

There is wisdom in this little parable, whether or not you found it funny. Inactivity, to paraphrase Warren Buffett, is often the smartest option if you already have a sound long-term strategy. When well executed, though, buying right and holding tight can add value.

If you followed the above scenario with us, your three year return is now slightly positive, five years and 10 years, if applicable, also positive. Considering inflation, you should have still have a positive return. So what is your total return? We report performance to you. But, in order to make a complete analysis, you need to factor in taxes, inflation, time period and risk tolerance. For each of you, the answer to will be different. Keep that in mind as you look over your account statements and remember that each of you has a different set of goals and objectives that we plan for, for many happy returns.

PERSONAL FINANCIAL IN THE COMMUNITY

Loren Kayfetz was elected to a 3 year term on as a Director for the Kauai United Way

Erin Hadley joined the Emeryville Chamber of Commerce

Nicole Hanson joined The Bay Area Estate Planners Association

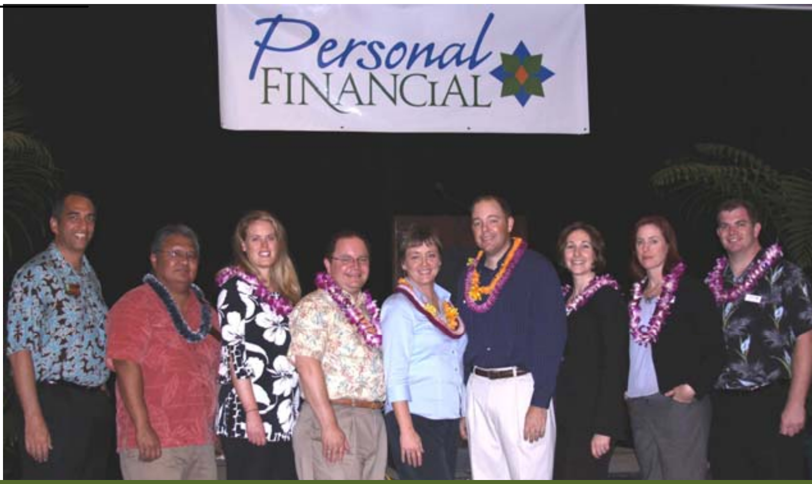

PHOTO: March 11, 2010 Kauai Chamber of Commerce Quarterly membership meeting sponsored by Personal Financial. Pictured with the Personal Financial team are Kauai Chamber of Commerce Chair, Kamika Smith, President Randall Francisco, Loren and Pat's Business Coach Angie Herbers and guest speaker, Money

Be Confident

WE ARE LOOKING FOR PEOPLE JUST LIKE YOU!

THE GREATEST COMPLIMENT TO US IS A REFERRAL.

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