

FINANCIAL STATEMENT

The Newsletter of Allied Tax Planners

7300 Johnston Road, Pleasanton, CA 94588 Phone 925-248-6800 Fax 925-248-6803 Toll Free 866-228-6800

Email: Ataxplan@aol.com Website: www.AlliedTaxPlanners.com

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Paying Less Taxes

How does one pay less taxes? The question is simple enough. The simplest response is to position yourself to take advantage of as many deductions as possible. That is where the fun begins. Just about anything is deductible under the right circumstances. But can you create the proper circumstances?

There are many opportunities but none of them are quickly achieved. Starting a business aside from your 9-5 job may accomplish many goals including tax savings. But is this the best strategy for you? Each strategy has advantages and disadvantages. So what are the opportunities? How can I learn all the ins and outs of each strategy? This is the time of year to take a good look at how your tax picture is shaping up for 2006. This may be all you need. However, long term solutions take time to understand and implement. And since tax laws change, economic conditions effecting investments change, your earnings change, opportunities change, and goals change—it is important to have a system that monitors these changes and evaluates if any actions are needed. Most accountants are not prepared to do this kind of tax and financial planning.

Ask us about our tax planning system. It is comprehensive and has been designed to continually bring you ideas, evaluate changes affecting prior planning, and to make the most out of your circumstances. This is the kind of service that will usually pay for itself.

Strategic Investing

Investing is about strategy. There must be as many investment strategies in the world as there are medications. In this business we love to learn about new strategies because we are usually surprised that there could possibly be another one. We are naturally curious as to how it is different and wonder if it actually works or just provides more fodder for jest.

Earlier this year we attended an investment seminar in South Lake Tahoe. One of the investment companies featured was the ICON family of mutual funds. Their niche is that they believe that markets go through stages. While in each stage, different industries will lead.

In other words, we see a rotation of various sectors outperforming the other sectors depending on economic conditions. Their funds will invest in other sectors. So instead of buying and selling individual stocks, bonds, etc. they'll invest in combinations of entire sector funds. The funds themselves will perform the individual stock analysis using Benjamin Graham's valuation models. The allocations and percentages of ownership in the sector funds will change with the economy and their analysis of what sectors are undervalued and most likely to emerge as tomorrow's market leaders. They have distinguished their funds from all the others. Two of their international funds earned 2005 Lipper awards. This is no small task in today's highly regulated investment world. Call us for more information.

Audit Corner

The IRS continues to ramp up the number of audits. We have seen more audits this year by correspondence. Nothing new to report on audits we are working on.

Recent Tax Law Changes

Old Law: The kiddie tax applies to children's investment earnings until they reach 14 years of age.

New Law: This year the age limit was raised to 18. It applies to earnings over \$800. This may change your strategy for funding education for your children.

Old Law: IRA conversions and new contributions to a Roth IRA are not allowed for married/single taxpayers with adjusted gross incomes more than 160,000/110,000.

New Law: As of May conversions are now possible no matter what your income is. Hooray! As for annual contributions, the old law stays in place until 2010. However, this problem is easily circumvented by contributing to a non-deductible IRA first and later converting it. This is a big tax planning benefit because none of the profits from a Roth are taxable and minimum distribution requirements starting at age 70 do not apply.

Securities and advisory services offered through American Investors Company, Member NASD/SIPC, Registered Investment Adviser.

Why Incorporate?

By Daniel Haupt

Are you self employed? As a self-employed individual your net profit (gross income—deductions) is charged self-employment (SE) taxes (15.3 % up to \$94,400). SE taxes are the equivalent of Social Security and Medicare taxes for an employer. You deduct 50% of the SE tax paid on page 1 of the 1040. A Corp. deducts the entire 15.3%. If you make \$94,000 (Single, no dependents) as self-employment income you would pay about \$14,382 in SE taxes alone. The 50% deduction would be \$7,191. This would save you, depending on your federal and state tax bracket (lets say 37%), \$2,661. This is enough savings to cover the \$800/yr minimum franchise fee. Even better,

you may be able to eliminate some of the 15.3% payroll taxes by converting your regular C corporation to an S corporation. As an S corporation, the income is taxed at the shareholders rates. So the corporation has no income taxes to pay. All profit or losses are passed on to the shareholders returns. If the corporation pays you a reasonable salary, the remaining amount passes to you as a dividend, taxable as a dividend subject to income tax, but NOT subject to the additional SE tax. If the corporation noted above paid \$50,000 in salary and the remaining \$44,000 in dividends you would reduce your taxes by about \$6,732 dollars! Please consult your tax advisor for details.

Funancial Section

Two women were walking through the woods when a frog called out to them and said: "Help me, ladies! I am a stockbroker who, through an evil witch's curse, has been transformed into a frog. If one of you will kiss me, I'll be returned to my former state!" One woman took out her purse, grabbed the frog, and stuffed it inside her handbag. The other woman, aghast, screamed, "Didn't you hear him? If you kiss him, he'll turn into a stockbroker!" The second woman replied, "Sure, but these days a talking frog is worth more than a stockbroker!"

From Milton Berle's Collection: "The market is weird. Every time one guy sells, another one buys, and they both think they're smart."



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TAX & FINANCIAL ADVISORS

7300 JOHNSTON ROAD
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