

FINANCIAL STATEMENT

The Newsletter of Allied Tax Planners

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A Sad Note

Jerry Ferreira passed away Wednesday April 30th, in his sleep. We all regret his passing and feel that the community has suffered a great loss.

"Perhaps they are not stars, but rather openings in heaven where the love of our lost ones pours through and shines down upon us to let us know they are happy."

- Eskimo Proverb

If you knew Jerry, please take a personal moment of silence to honor his passing.

Audit Corner

Tuesday's USA Today (April 29th) had an article that said the chances of getting audited for most taxpayers is twice what it was a year ago. It is still relatively low at 1-2%. The reason for the increase is something the IRS does not want published. Very simply, the IRS saves \$27 on every return that is filed electronically. So does the state of California. This is why all states and the IRS are encouraging everyone to electronically file! But guess what they are doing with the money? They are hiring more auditors and doing more audits than ever before in our history. E-filing is quick and easy, but it is the equivalent of giving someone a club and asking them to beat you. And the IRS is doing a good job of beating taxpayers up in these audits. They are tougher than I can ever remember. Lately I have seen auditors ignore adequate documentation and disallow deductions for items that are justified. The ignoring of receipts and intimidating taxpayers by offering self serving interpretations of the law are now the norm. We seldom obtain a "no change" or win an audit in the initial audit. We nearly always have to appeal and even apply for tax court to get in front of an appeals officer who applies the law more correctly. Deductions are becoming harder to take and the ones you take are getting more scrutiny. Remember that our Audit Defense service costs less than one hour of our time! - Bradley

Taxable Social Security & Tax Planning

If your only source of income is Social Security, your benefits are not taxable unless you are getting more than \$50K single, \$80K married, and you probably don't need to file a tax return. However, most retirees have pensions and other investment vehicles also bringing in income, in which case some or ALL of the social security benefits are taxable. As other income decreases, less SS benefits are taxable. As other income increases, more SS benefits are taxable. The unfortunate effect is that when you have more income for whatever reason, you get taxed on more of your social security!

This by itself may not be a disaster for your tax return, but consider the following example: a client of mine is retired and gets income from three main sources; social security, a mutual fund account, and an IRA account. Because the mutual fund wasn't performing well, the client's financial advisor had advised that they decrease the amount of distribution from the mutual fund account, and increase the amount of distribution he was getting from the IRA account. On top of this, in the last half of last year, because of the market, many mutual fund managers were selling stocks and incurring capital gains, which are passed on to mutual fund owners. So this client received about \$5000 more in capital gains than the previous year, \$5000 more in IRA distributions, and because of this \$10000 increase, about \$5000 more of the social security benefits were taxable! So, to summarize, the client was being taxed on approx. \$15,000 more income, when the client did NOT receive any more money during the year than he usually did. This is a great example of why tax planning can be a crucial part of your financial planning. Many financial professionals don't fully understand taxes and tax consequences. A seemingly small decision (to increase the IRA distribution and decrease the mutual fund distributions), and some market volatility combined to create a bad tax situation in this case.

Don't be surprised at tax time! When something changes in your financial situation, give us a call to find out how things will be different and what steps you can take to correct or alleviate any tax consequences. ~Matthew

Join the Party and Start Learning
 We talked with many of you about our Cashflow Parties this year. At these parties we play a game called "Cashflow," where you can learn how anyone can be an investor and what it takes to get out of the rat race. Everyone gets a scorecard that includes a simple income statement and balance sheet, and as you buy stocks, a property, start a business or take on debt, you change the scorecard accordingly. Its *always* a lot of fun and we *always* learn something new. Plus, we bring junk food, veggies, juice and soda. Our upcoming party dates are to the right of this blurb. Please call to RSVP!

Upcoming Cashflow Parties:

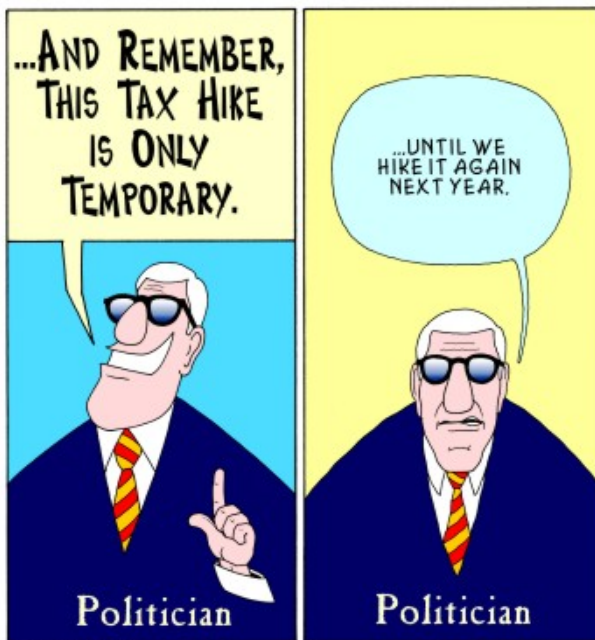
(Every 2nd Tuesday of the month)

Tues., May 13th 6-9 PM

Tues., June 10th, 6-9 PM

Tues., July 8th, 6-9 PM

You can read books and watch videos about how to get rich, but nothing will help you learn how to think like the rich quicker than playing the Cashflow game!
 Come out and see for yourself!



Funancial Section



"It's relatively simple. We only want what's ours, plus 30% of what you think is yours."



ALLIED TAX PLANNERS
 TAX & FINANCIAL STRATEGISTS

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