The Abel Advisor

a Financial Stewardship Newsletter

Abel Financial Strategies
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Hi Everyone,

This will be an interesting year due to the presidential election, as we will see a lot more negative advertisements than we have ever seen due to the tremendous amounts of funds the two main parties have available to spend.

This is starting out to be a decent year in the markets as economic growth appears to be positive but not dramatically so. We will all hope that that continues. Domestic companies are in very strong positions as they have large cash positions and very strong profits.

The markets have seen growth early this year but on very low volume. That along with the housing market and the European problems are the main headwinds for the market at this point.

Best wishes for a great March!

A.W.

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Election Year Tax Talk: Deciphering the Terminology

This year's election chatter is sure to include a healthy dose of tax talk. To keep up, here are five terms you should know.

The "Bush tax cuts"

A number of major tax changes were enacted in 2001 and 2003, including lower federal income tax rates, special maximum rates for long-term capital gains and qualifying dividends, and increased standard deduction amounts. While most of the provisions were extended by legislation passed in late 2010, these tax provisions are still commonly referred to as the "Bush tax cuts" or the "Bush-era tax cuts." With these provisions set to expire again at year-end, much of the tax debate will center around whether to extend the provisions again--particularly whether to extend the provisions for all taxpayers, or only to those who make less than a certain amount (e.g., individuals with incomes under $200,000, married couples with incomes under $250,000).

Alternative minimum tax (AMT)

The AMT is essentially a separate federal income tax system with its own rates and rules. If you're subject to the AMT, you have to calculate your taxes twice--once under the regular tax system and again under the AMT system. Bush tax cuts expanding AMT exemption amounts were extended only through the end of 2011. This increases the pressure to address AMT this year--failure to extend AMT relief would result in an estimated 30 million or more individuals being affected by the AMT in 2012. (Source: U.S. Congressional Research Service. The Alternative Minimum Tax for Individuals (RL30149; August 23, 2011), by Steven Maguire.)

The "Buffett rule"

On August 14, 2011, the *New York Times* published an opinion piece written by Warren Buffett, chairman and CEO of Berkshire Hathaway (Warren E. Buffett, "Stop Coddling the Super-Rich," *New York Times,* August 14, 2011). In the piece, Buffett essentially argued that he and his "mega-rich friends" weren't paying their fair share, noting that the rate at which he paid taxes (total tax as a percentage of taxable income) was lower than the other 20 people in his office. As Buffett points out, this is partially attributable to the fact that the ultra-wealthy typically receive a high proportion of their income from long-term capital gains and qualified dividends, which are currently taxed at rates that are generally lower than the rates that apply to wages and other ordinary income. President Obama has articulated the "Buffett rule" as the tenet that people making more than $1 million annually should not pay a smaller share of their income in taxes than middle-class families pay. (Source: www.whitehouse.gov.)

Value added tax (VAT)

A value added tax (VAT) is a consumption tax, like a sales tax. What distinguishes the VAT from a straight national sales tax is the fact that the VAT is assessed and collected at every point in the chain of production, on the "value added" at that step in the chain. Although a VAT can be implemented in different ways, here's one general approach: With a 10% VAT in effect, a supplier who sells $100 of materials to a manufacturer would pay $10 in VAT; the manufacturer who, in turn, sells a finished product to a retailer for $150 pays $5 in VAT ($150 sale price - $100 cost of materials, multiplied by the VAT rate); the retailer sells the product for $200, and pays an additional $5 in VAT ($200 sale price - $150 cost, multiplied by the VAT rate). Total VAT paid on the product is $20, or 10% of the final sale price.

Flat tax

Simple in concept, a flat tax would apply a single tax rate to individual income, or individual wages only (i.e., excluding investment income). A separate single rate might apply to businesses. Depending on the specific proposal, a base exemption may be allowed to exclude low-income families from the tax, and certain deductions may be allowed in determining the amount subject to tax.

Women and Estate Planning

Statistically, women live longer than men, and women earn less money over their lifetimes than men.

They say men are from Mars and women are from Venus, but is this true when it comes to estate planning? Absolutely. And because women often find themselves in such different circumstances than men, it is even more crucial for them to educate themselves about estate planning, and consult an experienced estate planning professional.

Women tend to live longer than men

Women live an average of 4.9 years longer than men (Source: National Vital Statistics Report, Volume 59, Number 4, March 2011). That means women need their assets to last longer than men do. It also means that wives are probably going to outlive their husbands, so they will likely inherit their husbands' estates, and they will probably have the last word about the final disposition of assets going to the couple's heirs.

Women tend to earn less during their lives than men

Full-time working women earned only 81.2 cents for each dollar a man earned in 2010 (Source: Bureau of Labor Statistics, Women at Work report, March 2011). Further, women work fewer years than men in order to care for home and family, further reducing their ability to save (Source: GAO-04-35, October 31, 2003). Simply put, women earn less money over their lifetimes than men. This means that women must plan to make fewer dollars last longer. It's important that women get sound retirement planning advice.

Most custodial parents are women

Approximately 84% of custodial parents are women (Source: U.S. Census Bureau, Custodial Mothers and Fathers and Their Child Support report, November 2009). Women who are parents of young children need to plan for the continued care of those children if something unforseen should happen. They also need to determine who will handle the children's property until they are older.

Women are business owners

Women owned 7.8 million nonfarm U.S. businesses operating in the 50 states and the District of Columbia in 2007, an increase of 20.1% from 2002 (most recent statistic available) (Source: U.S. Census Bureau, Facts for Features article, January 26, 2011). Women who are business owners need to protect their assets, and plan for the succession of their businesses.

Women are professionals

Women make up 57.5% of professional and related occupations (Source: Bureau of Labor Statistics, Current Population Survey, Table 11, "Employed persons by detailed occupation, sex, race, and Hispanic or Latino ethnicity," 2010). Women in professions with high litigation risks, like medicine, law, and real estate, can benefit from asset protection planning.

Women are wealthy

Women control $14 trillion in assets (Source: Center for Women's Business Research, 2005) and three-fourths of the financial wealth in the United States (Source: womensvoicesforchange.org, July 21, 2011). It's important for women to get sound investment, charitable giving, and tax planning advice.

Creating an estate plan

Regardless of marital status or net worth, women should make important decisions and arrangements today in order to protect themselves, their husbands or partners, and other loved ones in case of incapacity or death.

To create an estate plan, women need to have at least a working knowledge of the estate planning tools that are available, which typically include:

- Will -- A will is a written directive that includes instructions about who is to settle the estate (the executor), how property is to be distributed to the heirs, and perhaps most importantly, who will raise the children. Dying without a will means that a probate court will distribute the estate, which might result in family problems and lawsuits. Wills should be reviewed at least every two years, and updated after significant life events such as a birth, death, divorce, or remarriage.
- Trust -- A trust is a legal entity where someone, known as the grantor, arranges with another person, known as the trustee, to hold property for the benefit of a third party, known as the beneficiary. The grantor names the beneficiary and trustee, and establishes the rules the trustee must follow in a document called a trust agreement.
- Durable Power of Attorney -- A durable power of attorney (DPOA) names family members or other trusted individuals to make financial decisions or transact business on behalf of the person executing the DPOA.
- Health-Care Directives -- Health-care directives are instructions about the medical care that would be wanted if conditions were such that the patient couldn't express his or her own wishes.

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Seniors Are Often Targets of Scams

Here are a few things that may help you protect an elderly relative from being victimized by a scam:

- ***Become familiar with your loved one's finances***
- ***Recommend that they have any regular income directly deposited to their bank***
- ***Suggest that they consult you or someone else they trust before buying any service or product over the phone, online, or via the mail***

Anyone can fall victim to a financial scam, but seniors tend to be particularly popular targets. Frequently, fraud perpetrated against seniors is not reported until long after the scam has occurred, usually because victims don't realize they have been scammed or know where to report the scam, or because victims are too embarrassed to admit that they have been taken. Nevertheless, it's important for seniors and their family members to be aware of the signs that may point to a fraudulent scheme, and know what steps can be taken to prevent becoming victims of a scam.

Why seniors?

Seniors are a popular target for scammers for a number of reasons:

- Seniors are more likely to own their own homes, have a nest egg that's liquid and easily accessible, and have excellent credit.
- Today's generation of seniors were raised to be kind, helpful, trusting, and polite--perfect qualities for a scammer to exploit, knowing that it's hard for some seniors to simply say "no."
- Age has a tendency to affect memory, and scammers count on seniors not being able to remember important details when reporting a scam to the authorities.

What to look for

Scams targeting seniors often occur in one of three ways--through the Internet, on the telephone, or in person. And just when you think you've heard of all the possible scams out there, scammers will come up with another scheme intended to victimize seniors. The FBI website (www.fbi.gov) has a section dedicated to fraud targeting seniors. The site describes a number of schemes that have been discovered. It's a good idea to check this site regularly to keep updated on new scams. Here are some of the more popular scams that have victimized seniors.

Scams related to health care

There are a number of scams that focus on the new health-care law, health insurance for seniors, and Medicare. These scams may focus on "Obamacare" benefits, claiming that there is a "limited enrollment period," great insurance coverage including drug benefits for a low monthly cost, free medical equipment, low-cost drugs, or free medical tests given at nonmedical facilities like health clubs or shopping malls. To be on the safe side, don't sign a blank insurance claim form, since your insurance company may be billed for items you never received; generally don't do business over the phone or in person with a door-to-door salesman for medical services or benefits; and call your insurance carrier to be sure that what you're supposed to be getting "free of charge" is actually covered by your insurance.

Telemarketing scams

We've all been subjected to telemarketing, and it isn't always a bad thing. Some products and services are legitimate. However, telemarketing also serves as a way to scam people, especially seniors. Some warning signs that should prompt you to decline the offer include being told you "must act now or the offer won't be good," any offer that seems to be free (except that you have to pay for shipping and handling or administrative fees), the requirement that you provide your credit or debit card information or bank account number, and the suggestion that you "leave a check taped to your front door for a courier to pick up." In any case, if the caller tells you it isn't necessary to check out their company or consult family members or your lawyer, it's probably best just to decline altogether.

Internet and e-mail scams

Seniors' use of the Internet and e-mail is increasing daily, and so are Internet scams targeting seniors. Many such scams are based on getting credit or debit card information for services or merchandise that is never delivered. If you're going to give out this information online, try to ensure that the site is secure and reputable. Depending on the Web browser you use, you may see a padlock icon or some other indication to symbolize that there's a higher level of security to send important personal information, but it's not a guarantee that the site is secure. Also, check out the source of the merchandise or service before buying. It should have a physical address and phone number(s) that actually work.

In another type of Internet scam, people send you an e-mail claiming to be in possession of large sums of money and need you to help them open a U.S. bank account. Often, they ask that you "seed" the account with your own money, and in return, they'll pay you handsomely. Don't believe this promise and don't respond to the e-mail.

Bottom line

In short, as we've all heard before, if it sounds too good to be true, it probably is. If you fall victim to a scam, in addition to reporting it to your local police, you can report it to the FBI through their electronic tip line found at www.fbi.gov.

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Ask the Experts

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Can I provide annuity payments to my heirs after I die?

You may be able to provide income payments to your heirs for the rest of their lives through the use of a stretch annuity. A stretch annuity (also known as a legacy annuity) makes lifetime payments to the beneficiary you name in your deferred annuity contract if you die before the annuity start date (e.g., before you begin receiving regular annuity payments).

According to the rules regarding distribution of deferred annuity death proceeds, an annuity beneficiary other than the surviving spouse must receive the annuity proceeds within one year from the date of death. Often, the beneficiary will elect to receive the proceeds in a lump sum, subjecting all of the annuity's accumulated interest to income tax, significantly reducing the value of the beneficiary's proceeds. A better option might be to allow the annuity's death benefit to be paid over a number of years, in which case only a portion of each payment is subject to income tax and the balance of the annuity can continue to grow tax deferred.

Generally, most annuity issuers allow the beneficiary to elect how the proceeds are to be distributed. However, some issuers allow the annuity owner to determine how the annuity's proceeds are to be distributed. In either case, in addition to the lump sum payment, most issuers allow the proceeds of a nonqualified annuity to be distributed:

- Over a period not to exceed 5 years
- Annuitized over a period no longer than the beneficiary's life expectancy, including a period certain, such as 10 years
- As scheduled withdrawals based on the beneficiary's life expectancy according to the IRS life expectancy table

A stretch annuity may be most appropriate:

- For beneficiaries in a high income tax bracket who would pay substantial income tax on annuity earnings if received in a lump sum
- For beneficiaries who may be spendthrifts and might be better served by receiving systematic payments as opposed to a large, lump sum of money

Can I deduct losses from my variable annuity?

Generally yes, if the annuity is a nonqualified (e.g., not an IRA) commercial annuity. Typically, a variable annuity allows you to invest your premium in various mutual funds, called subaccounts. Unfortunately, these subaccounts may not perform favorably, and your premium could actually decrease in value.

You can claim the deduction in the year you surrender, or cash-in, the annuity (a partial surrender can't be claimed as a deductible loss). The amount of the loss is determined by subtracting the cash surrender value of the annuity from your basis in the contract. The basis is your investment in the annuity, reduced by any prior withdrawals from principal. For income tax purposes, the loss is treated as an ordinary loss and not a long-term capital loss.

Unfortunately, the IRS has not provided definitive guidance as to where the loss should be claimed on your tax return. Some believe the loss should be taken on the front of Form 1040 as "other gains or losses" from Form 4797.

However, IRS Publication 575 (Pension and Annuity Income) treats the deduction of a variable annuity as an itemized miscellaneous deduction on Schedule A subject to the 2%-of-adjusted-gross-income limit.

Variable annuities are long-term investments suitable for retirement funding and are subject to market fluctuations and investment risk including the possibility of loss of principal. Variable annuities contain fees and charges including, but not limited to, mortality and expense risk charges, sales and surrender (early withdrawal) charges, administrative fees, and charges for optional benefits and riders.

Variable annuities are sold by prospectus. You should consider the investment objectives, risk, charges, and expenses carefully before investing. The prospectus, which contains this and other information about the variable annuity, can be obtained from the insurance company issuing the variable annuity, or from your financial professional. You should read the prospectus carefully before you invest.

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