

THE PERIODIC PONDERANCE

Volume 7, Number 3 1919 14th Street, Suite 319, Boulder, Colorado 80302 3rd Quarter 2006

Tit for Tax

On May 18 of this year, President Bush signed into law some new tax-law changes, some of which might affect our clients:

Maximum 15% Capital Gains Tax Rates Have Been Extended Another Two Years.

The reduced rates were scheduled to expire at the end of 2008, and would have gone back to the higher 28% rate. Now the reversion to the higher rate will not take place until 2011. This is especially good news for individuals who have low-basis capital assets (such as stock that was bought or given to them many years ago or long-term investment properties). If you have any concerns about not being well diversified, you still have a window to do something about it without having to pay as much in capital gains taxes. Your financial planner or tax advisor can help you strategize.

After 2009, Roth Conversions Will Not Be Subject to Income Limitations. This may sound like a big yawn, but I think it could be a big deal! Let me explain.

Contributions to regular IRAs are generally tax deductible (up to certain limits and with certain restrictions), and as long as the assets are held in a regular IRA the assets can grow tax-free. IRA distributions are subject to *income* tax upon withdrawal.

On the other hand, contributions to Roth IRAs are not deductible, but the assets can grow tax-free and there is no *income* tax upon withdrawal. This is a huge advantage for persons who are not likely to need the funds in their lifetime, because it provides an avenue to set aside funds for future generations, and the growth is not inhibited by taxes.

The problem, before the new tax law was passed, was that single taxpayers with an annual income over \$110,000 and joint filers with more than \$160,000 were not allowed to make Roth IRA contributions. This rule didn't change. However (here comes the good part), what did change is that after 2009, **the income limits** for converting an existing IRA to a Roth IRA will be eliminated.

True, if the IRA conversion comes from a deductible IRA, you will have to pay *income* tax on the conversion but if it comes from non-deductible IRA contributions, you will be able to make the conversions **without any tax consequences** (that I can figure out).

So, if you are a taxpayer who has "more than enough," you might consider fully funding a NON-deductible IRA starting this year and plan on converting it to a Roth in 2010.

As with all strategies, they are almost never as simple as they appear and there are almost always exceptions to the rules. If you are a client of The Wealth Conservancy, let us review your specific situation with you. If you are not a client, be sure to talk with your tax advisor before you fund your retirement plans for 2006.

Kiddie Tax Extends to Age 18 From the Previous Age 14.

It used to be that children under the age of 14 were taxed at their own income-tax rate on their earned income and at their parents' higher rate on unearned income in excess of \$1,700 (assuming that the parent could claim the child as a dependent for tax purposes). The new act raises the age for this kiddie tax up to the age of 18 and it is effective THIS YEAR.

(See "Taxes" on page 4)



We are very excited to present a brand new workshop for women who do not need to earn a living; who may or may not have control over their portfolios, trusts or family businesses.

Participants will be more at ease planning their own estates and talking with their parents and children about their plans. They will understand how their wealth affects their personal relationships and how to develop those relationships without their wealth's interference. They will understand more about portfolio management, estate planning and tax basics. The result will be that they will be less intimidated by their wealth and more confident working with their advisors, investment managers, trustees, family office, accountants, and insurance brokers. That confidence will positively affect their personal relationships as well. Participants will learn so they will not be so dependent upon others to help with their finances.

The workshop will be held in San Antonio, Texas, September 15-17, 2006. Please visit our website www.thewealthconservancy.com/workshops for more details or to register or call us at 303-444-1919.

NO MORE MISS MANNERS – BLUNT TALK ABOUT THE “F” WORD

No, not THAT “F” word – Fiduciary! You know—a person or firm who holds the interests of the client or beneficiary above his or its own. By law, a trustee of any trust is a fiduciary, no matter in what state the trust is created, no matter if the trustee is a person or a corporate trustee. That’s pretty straightforward.

But what about investment managers and financial planners? Maybe yes, maybe no—buyer beware. The simplest way to find out is if they will agree, in writing, to sign a fiduciary agreement. According to The Center for Fiduciary Studies, the minimum Uniform Fiduciary Standards of Care are:

1. Know standards, laws and trust provisions.
2. Prepare investment policy statements.
3. Diversify portfolio assets.
4. Use professional money managers (“prudent experts”).
5. Control and account for investment expenses.
6. Monitor the activities of service providers.
7. Avoid conflicts of interest and prohibited transactions.

If your financial advisor or investment manager will not agree to abide by those duties, in writing, why are you giving them your business? (I fail to understand why someone would enter into an investment-management or financial-planning agreement with a non-fiduciary.) And if the advisory firm does not act as a fiduciary, how do you find someone who will? You can start by searching for a member of NAPFA (National Association of Personal Financial Advisors). All members must have specific, specialized education or training, and must agree to the following code of ethics:

Fiduciary Oath

The advisor shall exercise his/her best efforts to act in good faith and in the best interests of the client. The advisor shall provide written disclosure to the client prior to the engagement of the advisor, and thereafter throughout the term of the engagement, of any conflicts of interest which will or reasonably may compromise the impartiality or independence of the advisor.

The advisor, or any party in which the advisor has a financial interest, does not receive any compensation or other remuneration that is contingent on any client’s purchase or sale of a financial product. The advisor does not receive a fee or other compensation from another party based on the referral of a client or the client’s business.



You can also look for RIAs (Registered Investment Advisors) who are registered with the SEC, and see if they will sign a fiduciary agreement.

Of course, working with a fiduciary is no guarantee that you will be pleased with the service or performance, but it seems that you increase the odds if the advisory firm holds your interests above theirs or their shareholders’.

If I were looking for a financial advisor, I would consider references, fees, and performance as secondary factors. I’ll bet you can guess what I think the primary consideration should be.

—Myra Salzer

Your Credit Rating Could Be At Risk As More Cities Are Turning Unpaid Routine Fines Over To Collection Agencies

cies: An unpaid debt reported to a credit bureau is one of the fastest ways to lower one’s credit rating and raise the cost of future loans, insurance premiums and other charges from companies that check credit scores in deciding how much to charge. There is growing a trend [sic] for financially strapped cities to turn unpaid parking tickets, library fines, etc., over to private collection firms. Each city determines how much information ends up in a person’s credit file. But if you are being dunned by a collection agency for some unpaid fine, shrugging it off could be a bad decision.



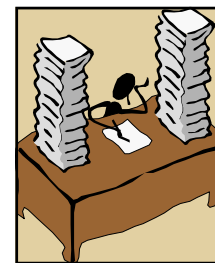
Reprinted with permission from the twice-monthly "Collier, Sarnier & Assocs. Doctor's Newsletter, which teaches doctors (and others) how to save on their taxes, practice smarter, avoid blunders and retire wealthy. It is in its fourth decade of publication and is available for \$195 per year by calling 888-888-4840.

“Happy is harder than money. Anybody who thinks money will make you happy, hasn’t got money.”

—Dave Geffen

Published by
THE WEALTH CONSERVANCY, INC.
1919 14th Street, Suite 319
Boulder, Colorado 80302
303-444-1919
FAX 303-444-1479
www.thewealthconservancy.com
twc@thewealthconservancy.com
© 2006 The Wealth Conservancy, Inc.

Home Record Retention Guidelines 2006



As we all know, it takes a lot of work, dedication and space to organize all of the paper that comes into our homes. That's why I like to know what I *do not* need to keep. I gleefully shred the unnecessary documents so I can concentrate on what to do with the documents that I need to keep or act upon. With that in mind, I did a little research to see what experts recommend keeping versus discarding. I came up with the following list, which I would like to share with everyone so that we can all live a slightly less cluttered life. However, if you just like to hang on to stuff, that's OK too!

Type of Document	Retention Period	Notes
Tax Returns and Backup Documentation	7 years	IRS has 3 years in which to audit a tax return (7 years if fraud is involved).
Medical (Insurance Premium Statements & Doctor/Hospital Bills)	5 years	From date of service rendered.
Home/Auto Insurance	5 – 10 years	Burden of proof falls on insured; do not count on the insurance company to provide copies of records.
Warranty Documents	Dispose of warranty at date of expiration or when removing the covered item from your home.	
Home-Repair Bills & Contracts	10 years	If applicable, get the "satisfaction of lien" from the contractors.
Paycheck Stubs – Year End	Indefinitely	
Paycheck Stubs – All other months	Accumulate one year's worth, discard and start over the next year.	According to another source, keep only last month's stub on hand, unless planning on getting a mortgage, then 3 months are needed.
Bank/Brokerage Statements	Do Not Need to Retain	If applying for a mortgage, will need current bank statements for past 3 months. Banks and brokerage firms have copies of records, if needed.
Credit Card Statements	Current 3 months	
ATM Receipts	Keep them until you balance your bank statement, then shred.	Get online account access to bank accounts.
Prospectuses, privacy notices, address confirms, etc...	Do Not Need to Retain	Unless acting upon the document. (Brokerage firms often allow you to receive most notices via email.)
TWC Quarterly Reports	Do Not Need to Retain	TWC has copies on file.
TWC Financial Planning Agreement	Duration of Relationship with TWC	TWC also retains a copy.
Utility Bills	Retain Last 3 Months	Retain utility bills if writing them off for tax purposes.
Mortgage Loan Information	Duration of Open Mortgage	
Satisfaction of Mortgage	Duration of Owning the Home	Upon paying off the mortgage, you will receive one of these. The bank is obligated to keep this, but it is a good idea for the homeowner to keep a copy as well.

Sources: www.lifeorganizers.com/office/records-retention.htm, www.shrednations.com/articles/personal-records-retention.php

—Melissa Hoyer

A Few Highlights . . .

MYRA has set the groundwork for two workshops this fall, Women's Wealth 101 in San Antonio in September (see article on page 1) and Inter-generational Legacies sponsored by The Boulder Community Foundation in October.

MELISSA has now successfully completed three of the five required modules in her CFP course. At this time she's well under way on the fourth: retirement planning. You go, girl!!

STEVE attended two conferences in May: the 2006 CFA Institute Annual Conference in Zurich, Switzerland, and the Strategic Investment Conference in San Diego.

NIXIE also attended two conferences this past quarter, both geared to enhancing our clients' experience from behind the scenes.

The TWC picnic was held last month at **STEVE** and **LANA**'s house in Broomfield. The food, conversation and views were spectacular. Thanks to the **HENNINGSSENS** for being such great hosts!.

(Taxes—continued from page 1)

This significantly reduces the tax benefit associated with saving or investing in assets that are titled in a child's name. Since it only applies to unearned income, parents will still want to consider holding municipal bonds, tax-deferred Series EE bonds or undeveloped land that will be sold after the child reaches 18 in the child's name.

Also, saving money for college in the child's name may now be less attractive, as is the case with Uniform Transfer or Gift to Minors Accounts (UTMAs or UGMAs). Without this tax savings clients with these types of accounts may consider rolling them over to 529 or prepaid tuition plans. There is a whole host of factors to consider here, so again, it is imperative that you speak to your financial advisor to explore all of your options.

Muni-bond Reporting Requirements Will Start This Year.

The interest on muni-bonds will continue to be tax-free for federal income tax purposes, but now the IRS will be notified of taxpayers' tax-free interest income. This will allow the IRS to better determine how much of a taxpayer's social-security income is taxable.

This may impact taxpayers who are dependent on a combination of Social Security income and income from a portfolio of municipal bonds.

Business Depreciation Rates Extended Through 2009.

Though this does not affect most of our clients, it is good to know that the first \$108,000 a business spends in depreciable assets is fully deductible that year. This deductible limit was scheduled to revert back to \$25,000 in 2007.

—Myra Salzer

A man is getting into the shower just as his wife is finishing up her shower when the doorbell rings. After a few seconds of arguing over which one should go and answer the door, the wife gives up, quickly wraps herself up in a towel and runs downstairs.

When she opens the door, there stands Bob, the next-door neighbor. Before she says a word, Bob says, "I'll give you \$800 to drop that towel."

After thinking for a moment, the woman drops her towel and stands naked in front of Bob. After a few seconds, Bob hands her \$800 and leaves.

Confused, but excited about her good fortune, the woman wraps back up in the towel and goes back upstairs. When she gets back to the bathroom, her husband asks from the shower, "Who was that?"

"It was Bob, the next door neighbor," she replies.

"Great," the husband says, "did he say anything about the \$800 he owes me?"

Moral of the Story: If you share critical information pertaining to credit and risk in time with your stakeholders, you may be in a position to prevent avoidable exposure.

