

End of Year Tax Planning:

A Gift To Give To Yourself

While we fully appreciate that practically no one likes to think about taxes before they absolutely have to, we are among the select group that does so. To paraphrase an advertisement, "we think about taxes so you don't have to!" In addition to tax loss harvesting, described on page 1 of this issue, there are several other strategies that you can use to reduce your tax bill for 2007. By thinking about tax planning now, you can avoid the late December scramble to find tax saving opportunities.

While there are a great number of end of year tax planning strategies, here are a few easy ways to reduce your contribution to Uncle Sam this year:

Maximize Contributions to IRAs and Retirement Plans

Examine your retirement plan contributions for the year to ensure that you are contributing the maximum amount possible (\$15,500 for 2007), with some plans (including the Thrift Savings Plan) allowing those over 50 years old to make "catch up" contributions of up to a total of \$20,500 for this year. If you qualify for a tax-deferred traditional IRA or a tax-free Roth IRA, the 2007 contribution limits are \$4,000 (or \$5,000 for those 50 and over).

Review Your Flexible Spending Accounts

If you have contributed the maximum contribution to your pre-tax flexible spending account for medical, dental, vision, etc., make sure that you take advantage of this money. While the old rule that you had to "use it or lose it" by December 31st each year has given way to the more generous use by March 15th of the next year, you will still lose money if you don't deplete your account each year. The value of a pre-tax FSA can be seen in this example -- for a taxpayer in the 25% tax bracket, after factoring in FICA costs, \$1,000 in the FSA equates to more than \$1,500 in true spending power.

Defer Income

If you have the option of deferring receipt of end of year payments for consulting work or other income generating activity, you may want to consider asking to get the check in January to reduce the tax bite for the current year.



Make Charitable Contributions

There is no need to belabor this obvious mechanism to reduce taxes while you help others in your community or around the world. However, you need to be aware that the IRS requires you to have a receipt (or canceled check) for any charitable contribution of \$250 or more. You should also be sensitive to the scrutiny given to donations to charity of household goods and cars and boats. While it is generally fairly easy to find an authoritative source for car and boat prices (Kelly's Blue Book, NADA Guide, etc.), it is harder to establish reasonable values for household goods. The Salvation Army and Goodwill have guides on the Internet that can help you with this. Look at <http://www.goodwillpromo.org/> or <http://www.satruck.com/ValueGuide.asp> for assistance.

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FALL 2007



FOUNDING PARTNER

I. Mark Cohen
JD, LLM & CFP™

It is October again, my favorite month in Virginia. Cool crisp mornings, sunny days, and autumn colors on the trees. Michael, having worked the summer in Arizona, is now a freshman at William and Mary and doing fine. You know he is adjusting well when he refers to his dorm as "home."

Rachel is now a senior at Marshall High School and is totally caught up in the requirements of the full IB diploma program, marching band, college applications, SAT, SAT2's, and the occasional social outing with her friends. Yes, she still lives at home, but we don't see much more of her than we do of Michael.

Kathy started off the school year by enrolling in an Italian class for travelers. I am not sure, but somehow I think a trip to the Mediterranean may be a topic of discussion soon.

As for me, I am pleased to report that we have raised over \$3,300 for the Leukemia and Lymphoma Society in conjunction with my participation in the upcoming Marine Corps Marathon. Thanks to all who contributed to this cause.

I am continuing to work with the Legislative Committee and write and speak on estate planning and trust law. This year will see the introduction in Virginia of a new uniform act on powers of attorney and another on the management of institutional funds.

It has been a busy and exciting time at the Cohen household, but not too busy for us to stop and reflect on the abundance of things to give thanks for in our lives. Among those, we value our clients and the friendships we have made with you over the years. That said, we wish you all our best for a very Happy Thanksgiving.

It's Harvest Time!

For many of us, the crisp Fall days bring to mind the scene of apple harvests or picking out the best pumpkin from the patch. But this Fall your notion of "harvest time" should expand to include the idea of examining your portfolios to look for opportunities to "harvest" tax losses before the end of the year.

The recent swings in the stock market may give you an opportunity to make desired changes to your portfolio without triggering expensive tax gains. While we do not advocate selling off otherwise desirable



investments strictly for tax losses, if you have been thinking about selling something in your portfolio for sound investment reasons, such as diversification or reduction in volatility, now may be a good time to take such action. Realized capital losses from such sales can be used to offset, dollar for dollar, realized capital gains. Further, if your capital losses exceed your capital gains, you can deduct as much as \$3,000 per year from wages and ordinary income for the year and carry forward other losses to future tax years.

One caution, however – the IRS does not like you to sell off a security for tax reasons and buy the same or a substantially identical security within 30 days before or after the sale to replace it. This is the so-called "wash sale" rule. At its most basic, the rule does not allow you to sell a security, for example, stock in XYZ Corp., to take a capital loss due to a reduction in the stock price of XYZ, and then repurchase XYZ shortly thereafter because you believe it is a good investment despite the drop in stock price. The wash sale rule can get very complex, particularly on what would be considered the same or "substantially identical" security, and we encourage you to seek professional advice before potentially problematic transactions. However, notwithstanding the wash sale rule, your tax loss harvest this year may be very fruitful for your tax return!

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Susan Greco joined us on September 24, 2007 as our new Director of Marketing and Annemarie Rucker joined us as the First Impression Specialist. Larry Solomon is working ably on new and revised financial plans. George Reilly got an offer he could not refuse, to rejoin the Navy JAG organization that we both worked for so many years. Greg Armstrong was invited to lunch with Mark Lerner and Stan Kasten from the Washington Nationals where they solicited suggestions for improving the baseball team with the move to the new stadium. Jennifer Hernandez is now the paralegal. Melissa Gardner is still watching over Customer Services for financial clients.

My wife, Barb, had a great summer of family, fun and rest. We went to Tahiti for ten days and to New Hampshire for eight days, She started back to school in August with a new teacher taking over for her on Math Counts and two class preps instead of three which will reduce her workload to only 60-70 hours per week instead of the 100+ for many years.

In August, my son David took the NY Bar exam with Barb serving as his pit crew for meals and wheels. A week later David and I did a Sprint Olympic triathlon in Pennsylvania. I was amazed how hilly their "flat" course was. Then, in September, David did one hiking trip in Colorado with his girlfriend, Emilie, and followed that up with a 300 mile bike ride in Colorado. Then the two of us joined my son, LTJG Edward Burnett for the final four days of his second six month cruise on board the USS MITSCHER for a Tiger Cruise from Mayport, FL to his Norfolk homeport. Edward has been relaxing since then and working on his resume as he will become a civilian next spring. In late September, David then traveled to NYC to start his litigation job with a NY law firm. I am amazed at how much he will earn as a new lawyer and how much he will spend for a tiny apartment.

In August, Jennifer started her PhD fellowship at University of Louisville, KY. Her boyfriend, J.D., a Public Defender in Charlottesville has already driven to Louisville on two separate weekends to visit her.

My mother made it to New Hampshire with her two sisters for a week when we were there. While she was there, we had at least 22 relatives for the Saturday Cottage Association annual meeting and lunch that followed.

On behalf of the entire firm, we wish you a very Happy Thanksgiving.

How Long Should Tax Records Be Maintained?

We are often asked how long tax and other financial records should be maintained. Unfortunately, the answer is not simple. Although there are rules, you will find so many exceptions that the rules are more in the nature of guidelines.

First, some non-income tax reasons to keep records:

1. Keep proof of your property and casualty insurance for as long as you own your property. We know of a client who discovered an oil drum on his property and the clean-up costs exceeded his policy for the year. He was able to get his full cost reimbursed only when he showed the insurance company that his policy covered several years.



2. If you put information on a financial statement to obtain credit, (such as a mortgage or home equity line of credit) you should keep the supporting information as long as the credit is extended.

With that in mind, here are some tax guidelines. Keep records:

1. *Indefinitely* if you did not file a return or have filed a fraudulent return.
2. *Seven years* if you filed a claim for worthless securities or bad debt deduction.

Keep tax returns, and supporting papers, for:

- *Six years* if you did not report income, and that income constitutes more than 25% of the gross income shown on the return.
- *Four years* if it relates to employment taxes.
- *Three years* from the date filed or *two years* from the date the taxes were paid, whichever is later, for all others.

The time periods are all from the due date of the return or the date actually filed if later. If you filed early, the time period is from the due date of the return.

What is the bottom line? If you are honest and you filed on time, you can shred the return after three years.

No legacy is so rich as honesty.

- William Shakespeare

“The Best Laid (Estate) Plans ... Often Go Astray”

With apologies to Robert Burns, his famous quote can be easily applied to many of the situations we see with the estate plans of some clients. A carefully crafted plan designed to maximize estate tax savings and create an asset distribution plan to fit a client's particular circumstances can be easily undermined over the passage of time with the result often being something far more complicated and/or less effective than planned and desired! How does this happen? Two very common ways are forgetting to change beneficiary designations for insurance policies, retirement plans, etc., and not ensuring that real estate and bank/brokerage accounts are properly titled into your Trusts.

Here are some important beneficiary designations you might want to consider:

Insurance. As you may know, an insurance policy will be paid to the named beneficiary, whether or not that person is, at the time of payment, who you would like to get the policy proceeds. An extreme example of this from the Navy, but nevertheless true, was the Sailor who was stunned to find that his (\$400,000) Servicemembers' Group Life Insurance (SGLI) policy was not payable to his wife or their young children, but rather was still payable to a Navy buddy from boot camp who he had not seen in years. As the story went, the Sailor and his buddy, both single at the time, thought it would be funny to name each other as beneficiaries of each other's SGLI. In this case the Sailor was able to catch this error before tragedy struck. But it is not uncommon to find former or deceased spouses still erroneously listed on insurance policies. Do you know who benefits from your own policies? Are you sure?



Retirement Plans. A similar issue relates to beneficiaries of retirement plans and IRAs. Until this year, it was common to name a spouse as the primary beneficiary and your estate or Trust as the secondary beneficiary. A significant change in the tax law now permits non-spouses to receive retirement plan proceeds on a tax-favored basis. We have discussed this beneficiary or "stretch IRA" in previous newsletters. But now would be a good time to review your plan documents to make sure you understand how your plan will be distributed after you're gone.

Titling of Assets. In many cases as part our estate planning process we prepare new deeds for clients to transfer the real estate they own at that time into their Trusts in accordance with their individual plans. However, as the years go by many clients will change banks or brokerage houses, or downsize (or "upsized") and sell their real property that was titled into the Trust(s). If the new property is not titled into the Trust(s) when the new accounts are opened, or at the real estate closing, it is often forgotten about and may never be revisited. While this will not completely undermine the estate plan in most cases, it makes things more complicated and more expensive for your family. And if the real estate in question is in another state it will really complicate matters as your estate will need to go to court in that state to transfer the property into your Trust. A suggestion—take the opportunity as you gather information for your tax return to examine how the account or real property is titled. Look at the account statement or tax bill and ensure that it says Trust somewhere on there, and that it is the right Trust! If you need assistance please call our office and schedule an appointment. We would like to see the plans we create for you work as intended and not lead your family "astray!"

What's Going On Around the World and Wall Street

You are cordially invited to an **Investment Symposium** hosted by **Cohen & Burnett, PC and Legacy Analytics, LLC**, presented by **Dunham & Associates Investment Counsel, Inc.** featuring Jeffrey A. Dunham, President & CEO of Dunham & Associates, Dean Graves, CFA of Denver Investment Advisors, LLC, John Merante, CFA of Neuberger Berman, LLC and Richard N. Stice, CFA of Rigel Capital, LLC.

Seldom does such an opportunity arise to assemble this caliber of experts who collectively manage billions of dollars in investments. We hope you'll join us to hear their unique insights and to bring your questions on how recent trends may affect you, your family and your future.

Tuesday, October 23, 2007, 6:00pm

Marriott Tyson's Corner
8028 Leesburg Pike
Vienna, VA 22182
Hors d'oeuvres buffet to follow

For more details and to RSVP, contact Annemarie at (703)847-8900 or email Annemarie@cohenandburnett.com