



Guide the Journey

First Quarter 2009

A publication for Miller Gesko

Planning for Higher Tax Rates

A number of factors look to make higher taxes inevitable for many Americans. There's the incredible cost of the credit crisis bailout and all its peripheral costs. On January 1, 2011, the entire 2001 Economic Growth and Tax Relief Reconciliation Act (EGTRRA) will sunset. Capital gains, income tax, the estate, gift, and generation-skipping tax rates will all automatically reset to their higher pre-EGTRRA levels unless Congress acts before then. Then there is the continuing impact of the Alternative Minimum Tax on more and more middle class tax-payers. The new Administration's desired program expansions and goals also come with considerable costs that will need to be met.

All of which brings up the need to structure your investments and assets to minimize your tax bite and optimize the earning potential of your investments. Below are some ideas you might want to discuss with your tax and financial advisers and put in place.

1. Optimize tax-advantaged accounts.

To reduce your taxable income, take advantage of any retirement plan contributions you can make to defer taxes. The table below shows employee contribution limits for 2008 and 2009, including catch-up provisions for individuals over 50. There are income restrictions to be eligible for an IRA or Roth IRA, so check with

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| Type of Retirement Plan | Maximum Annual Contributions | | | |
|--|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
| | 2008 | | 2009 | |
| | Under Age 50 | 50 and Older | Under Age 50 | 50 and Older |
| Individual Retirement Plans* | | | | |
| Traditional and Roth IRA | \$5,000 | \$6,000 | \$5,000 | \$6,000 |
| Employer-Sponsored Retirement Plans | | | | |
| 401(k), Roth 401(k), 403(b), 457 and SARSEP Plans | \$15,500 | \$20,500 | \$16,500 | \$22,000 |
| Small Business or Self-Employed Retirement Plans | | | | |
| Self-Employed 401k (a.k.a., Solo-401k, Individual 401k, Roth 401k) | 100% of compensation up to \$15,500 | 100% of compensation up to \$20,500 | 100% of compensation up to \$16,500 | 100% of compensation up to \$22,000 |
| SIMPLE (Savings Incentive Match Plan for Employees) IRA or 401(k) | \$10,500 | \$13,000 | \$11,500 | \$14,000 |
| Coverdell Education Savings Account* | | | | |
| Per beneficiary under age 18 | \$2,000 | | \$2,000 | |
| Health Savings Account | | | | |
| | Under Age 55 | 55 and Older | Under Age 55 | 55 and Older |
| Individual | \$2,900 | \$3,800 | \$3,000 | \$4,000 |
| Family | \$5,800 | | \$5,950 | |

Protect Your Assets

Bernard Madoff's alleged Ponzi scheme is notable primarily in the size of the fraud – \$50 billion – and its length – in excess of 20 years. But the story itself is all too familiar. Like many con artists, Madoff used a stellar reputation and connections in the financial and political arenas to avoid questions on how he managed to achieve profits when others faltered.

Whether Madoff's investment management services began as a legitimate business or as a fraud, we don't know. What we do know are precautions that could have kept his investors from losing so much:

- **Always have an independent means of verifying account values and performance.** While we believe the vast majority of managers are honest, you need to have a means of verifying performance.
- **The better the performance, and the less you understand how it was achieved, the greater your caution should be.** The financial markets have a way of humbling everyone at one time or another. Problems arise when the manager is unwilling to admit to failing and turns instead to great risks in hope of recovering or even fraud to cover up losses.
- **Diversification is essential.** The investors hurt the most are the ones who trusted Madoff with virtually all of their investment assets. But, fraud isn't the only reason for diversification. All investment approaches have periods of underperformance. Diversification by strategy, asset class and individual investments gives you at least a measure of assurance that you won't lose everything to a bad decision, whether yours or the manager's.

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your financial adviser prior to making a contribution.

2. Roll over traditional IRA accounts into a Roth IRA.

With many IRA accounts below prior year values, this may be the time to roll those accounts into a Roth IRA. Withdrawals from Roth IRAs are exempt from federal income taxes, however, contributions are not deductible and come from after-tax income. As a result, you will need to pay income taxes on amounts transferred from a traditional IRA to a Roth. There are income limitations for Roth conversions, so check before you convert. Barring new legislation, these are set to expire in 2010, when anyone can convert to a Roth without regard to income.

3. Avoid capital gains distributions.

Even when mutual funds decline in net asset value, you can still get caught with capital gains if the funds sell appreciated assets to meet withdrawal demand. To avoid the capital gains issue, place mutual fund investments in tax-advantaged accounts, or sell funds that have lost value prior to distributions for the year, typically in December.

4. Harvest your tax losses, but avoid wash sales.

When you realize capital losses, you can offset any capital gains with those losses. If you have more losses than gains, the IRS allows you to sell losing investments and use up to \$3,000 of net investment losses to offset income in the current year and carry over additional losses to offset future capital gains indefinitely. Just be aware that if you buy substantially identical replacement investments within 30 days after the sale — or within 30 days before the sale — you can't deduct your loss under the wash sale rule.

5. Consider tax exempt bonds.

Income from taxable bonds and bond funds is taxed at ordinary income-tax rates (as high as 35% now). This can make municipal bonds or a municipal-bond fund a better investment for after-tax yields. To the extent that you own taxable bonds, particularly high-yield bonds that produce income, consider holding them in tax-sheltered retirement accounts.

6. Use alternative investments to avoid losses in positions with large capital gains.

If you are concerned that an investment with substantial gains could

decline in value and you want to lock in profits, consider the use of alternative investments such as inverse funds, contra-Exchange Traded Funds (ETFs), and options that allow you to hedge your gains to avoid liquidating a position. Again, this is something you want to talk to your financial adviser about first.

7. Consider AMT liabilities before taking gains.

The alternative minimum tax (AMT) is impacting more and more middle-class and upper-middle-class taxpayers. Taking major gains, exercising stock options and simply realizing more income than prior years may entangle you in the AMT.

8. Get credit for your generosity.

If you itemize your deductions, you can deduct charitable contributions. Save receipts and canceled checks as proof. Strategic giving can lower your income and allow your funds to go to causes you support rather than taxes.

The preceding ideas are for general information purposes only and should not be considered tax or accounting advice. Every individual's situation differs. Talk to your financial or tax adviser about ways to reduce your taxable income before implementing any of these suggestions.

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