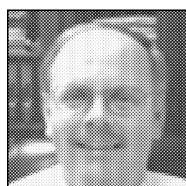

Your Taxes and Financial Matters

By: ***Richard P. Król***

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Plan for the tax consequences of required minimum distributions

After all the advice you've received about saving for retirement, taking money out of your traditional IRAs and other qualified retirement plans may feel strange. Yet once you reach age 70½, the required minimum distribution (RMD) rules say you have to do just that.

Under these rules, you must withdraw at least a minimum amount from your retirement plans each year. Since the withdrawals are considered ordinary income, planning in advance can help you prepare for the impact on your tax return.

Here are two suggestions.

Make a list of your accounts. The rules require an RMD calculation for each plan. With traditional IRAs, including SEP and SIMPLE plans, you can take the total distribution from one or more accounts, in any amount you choose. You can also take more than the minimum.

However, withdrawals from different types of retirement plans can't be combined. Say for instance, you have one 401(k) and one IRA. You have to figure the RMD for each and take separate distributions.

Why is that important? Failing to take distributions, or taking less than is required, could result in a penalty of 50% of the shortfall.

Plan your required beginning date. In general, you're required to withdraw RMDs by December 31, starting in the year you turn 70½. The rules provide one exception: You have the option of postponing your first withdrawal until April 1 of the following year.

Delaying income can be a sound tax move. But because you'll still have to take your second distribution by December 31, you'll receive two distributions in the same year, which can increase your taxes.

Zero capital gains rate coming in 2008

You already know the federal tax rate on capital gains varies, depending on your tax bracket, the kind of property you sell, and how long you owned it.

But are you aware that starting next year some capital gains won't be taxed at all?

From 2008 through 2010, if your taxable income falls within the 10% or 15% tax brackets, the rate you'll pay on your federal return for certain dividends and long-term capital gains will be zero.

The zero rate generally applies to gains on sales of assets such as stocks, bonds, and mutual funds that you owned longer than a year. Qualified dividends, which include dividends on most US stocks, are also eligible.

Note: Gains on sales of assets you owned for twelve months or less are still taxed at your ordinary income rate. Depreciation recapture and sales of collectibles remain subject to higher rates as well.

Though the zero percent break becomes effective January 1, you can start planning now. For instance, it may be beneficial to wait until 2008 to sell appreciated stocks in taxable investment accounts.

In addition, since expanded kiddie tax rules go into effect in January, it's a good idea to review gifting plans before year end. Why? The new rules mean the investment income of your age 19 and younger dependent children (under age 24 for students) might be taxed at your rate in 2008. Preparing in advance can save tax dollars.

If you have additional questions about the ideas mentioned here and/or the many other strategies available to you, they may be directed to me at 800-CPA-KROL (272-5765), or you may write to:

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Music News

By: ***Marek Żebrowski and Krysta Close***

Poland… in film and in music

By: ***Krysta Close***

INLAND EMPIRE is an epic film by the celebrated Hollywood director, David Lynch. Although its title may suggest eastern regions of Southern California, a great deal of the film's action takes place in Poland. This complex and fascinating feature was shot on location in Łódź, showing its mysterious streetscapes and interiors, ranging from the elegant palaces of textile manufacturers to the factory workers' apartments. Several prominent Polish actors - Krzysztof Majchrzak, Karolina Gruszka and Peter Lucas - are among the star-studded cast that also includes Laura Dern, Jeremy Irons and Justin Theroux. Another prominent Pole, Marek Żydowicz, CAMERIMAGE Film Festival Director, was also an executive producer of the film.

In addition to the strong Polish visual component, the film's soundtrack contains several compositions by the most famous Polish composers, including excerpts from Bogusław Schaeffers' *Piano Concerto*, Witold Lutosławski's *Novelette*, and Krzysztof Penderecki's *The Dream of Jacob*. David Lynch also appears as composer of several tracks on the album, including such scene cues as *Ghost of Love*, *Rabbits Theme*, *Woods Variation*, *Call From the Past*, *Mansion Theme*, and *Walkin' on the Sky*. The director's collaboration with pianist and composer, Marek Żebrowski, also forms a part of INLAND EMPIRE'S soundtrack with a cue entitled *Polish Night Music No. 1*.

In fact, the long-standing musical collaboration between David Lynch and Marek Żebrowski has led to a separate CD recording, called *Polish Night Music*, scheduled for wide release later this month. The music on this highly suggestive album ("to be played after dark," according to cover instructions) stems from several freely -improvised sessions, recorded in David Lynch's Hollywood studio over the past several years. The point of departure for all improvisations, including tracks such as *Night – a city back street* or *Night – a landscape with factory*, is a short description or a poem, written by Lynch and "enacted" on the spot by the performers. The result is moody and haunting music that captures the spirit of the moment, probing the wide-ranging boundaries of imagination of the two musicians. Lynch, performing on a KORG synthesizer, lays the basic foundation of sound and mood upon which Żebrowski's pianistic flourish provides the color and harmony.

Since 2006, David Lynch and Marek Żebrowski have also performed different versions of *Polish Night Music* in live concerts, improvising for audiences all over the world, including New York City, Łódź, Washington DC, Paris, Gdańsk, Los Angeles, and Milan. Critics and audiences present at these events were impressed by the instantaneous musical evocations of abandoned factories, rain-soaked cobblestone streets at twilight, and solitary individuals traversing desolate landscapes. For those brave enough to follow such plot twists and turns, the Lynch/Żebrowski *Polish Night Music* CD will likely evoke similar, film-like imagery, accomplishing its goals by means of its mesmerizing sound. ❒

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Investments

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Should You Consider Tax Swaps in Your Investment Portfolio?

A transaction that allows the proceeds from the sale of a security to be simultaneously reinvested into another security is sometimes referred to as a swap. The combined transactions of the swap are designed to provide benefits to the investor in terms of diversification[1], income, credit quality, maturity target or call features. Often, there may be tax benefits to the swap as well.

Realizing Gains and Losses

Many individuals have unrealized capital gains and losses in their investment portfolios that may be unlocked through a swap transaction, known as a tax swap. These transactions require the sale of a security to offset a loss or a gain elsewhere in your portfolio. Such a swap may convert a loss or gain into a real tax saving. You might consider tax swaps if you have capital gains or losses from the sale of a security, or expect to sell a security at a profit or loss in the near future. While swaps can be done at any time of the year, many investors use the period towards the end of the tax year to review their portfolios for tax swap opportunities.

For example: if you sell an equity position for a significant gain, you could offset the capital gain by selling a fixed income holding for a capital loss, using the proceeds to buy a new bond with a higher coupon.

Short - or Long-term? Netting the Difference

As described below, capital losses can be used to offset capital gains on a dollar-for-dollar basis. For tax reporting purposes you must first net short-term gains against short-term losses (securities held for one year or less), and long-term gains against long-term losses (securities held for more than a year). Any remaining short- and long-term gains and losses can be netted against each other. If net capital losses still remain, up to $3,000 may be used to offset ordinary income. Any unused capital losses are carried forward indefinitely.

Avoiding the 'Wash Sale' Rule

The Internal Revenue Service requires a taxpayer to defer any tax loss generated from the sale and purchase of 'substantially identical securities' if the transactions occur within 30 days of each other (regardless of whether the sale is before or after the purchase). This is commonly referred to as a 'wash sale.' Generally, securities are not considered identical when they have different issuers, or, for fixed income securities, where there are substantial differences in either maturity date or coupon rate. You should consult your own tax advisors before making any swap decision and to determine whether a sale will be considered a wash sale.

Investment Considerations

As with all investments, equity and fixed income securities have inherent risks, which you should consider before investing. These include equity market risk, interest rate risk, credit risk, reinvestment risk, fixed income secondary market risk[2] and call risk. In addition, any swap should always be considered in relation to your financial objectives and goals.

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Federal Court judge in San Francisco stops the government from enforcing new rule against illegal employment

In October of this year, a District Court judge in San Francisco issued an injunction stopping the government from applying a rule that would have made it much more difficult for undocumented aliens to work here. The efforts of the federal government to stop employers from hiring workers without the permission to work were dealt a temporary set-back when a court prohibited the government from enforcing its so-called "no-match letters".

On August 15, 2007, the Department of Homeland Security (DHS) issued a new rule that created an enforcement procedure for ensuring that workers have a legal right to work. It called for the DHS and Social Security Administration (SSA) to share their database of information about employees and immigrants in this country. It would have subjected employers to fines and even jail if they failed to respond to government inquiries about the legal status of a worker.

The SSA has for many years issued letters informing employers when the social security numbers reported for their employees do not match the records of the government agency. These "no-match" letters have up until now been largely ignored. No effort was made to follow up these letters with enforcement of the law, until this recent regulation.

Under the new DHS rules, if an employer gets a no-match letter, it must take action within 90 days to resolve the issue with the SSA. If the employee cannot prove to the employer that his social security number is valid within that period, then the employer is supposed to fire the employee or face significant fines. In some cases, the employee would have to be terminated even if the employee's social security number is valid and the SSA's information is in error.

The new law was challenged in court by a coalition of business and labor groups in the case of *American Federation of Labor v. Chertoff*, filed in U.S. District Court in San Francisco. The plaintiffs argued that the law was arbitrary and capricious, and could result in the termination of employment of U.S. citizens due to the inadequate safeguards provided by the compliance system. The government defended the law as necessary for national security and enforcement of the immigration laws.

District Court Judge Charles Breyer in San Francisco agreed with the plaintiffs, finding the law does risk violating the rights of citizens and others with a valid right of employment. Until such time as the case moves forward to a conclusion, the judge has barred enforcement of the law by the DHS. This has provided at least a delay in implementation of this rule against employers.

Nonetheless, employers are still liable for hiring undocumented workers under the terms of other laws, including the 1996 Immigration Control and Reform Act. This subjects employers to both criminal and civil liability for knowingly hiring illegal workers. A number of large companies have been the target of recent raids by the DHS, resulting in mass arrests of illegal aliens and prosecutions of some employers.

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