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# Client Information Bulletin

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## Six Ways to Build Up College Savings

### *Consider these common investment vehicles*

The latest figures show that the cost of college continues to rise (see chart on page 2). Depending on your situation, it could easily cost six figures to send just one child through school. So how can you foot the bill? It usually helps to build a college savings fund through astute investments.

Of course, there are no guarantees and you must contend with certain risks, but here are six investment vehicles to consider.

**1. Securities:** If your child is still a tyke, you might allocate some of your investment dollars to securities such as stocks and bonds. Keep in mind, however, that liquidity becomes more of an issue as the child reaches his or her teens. Remember to balance the potential rewards against the inherent risks. By diversifying among different types of equities, you can provide more protection for the family. **Note:** There are no guarantees against loss of principal.

**2. Mutual funds:** This is a popular way to save for a child who is years away from entering school. In general, mutual funds provide diversification and professional management. However, the investment return and principal value of mutual funds will fluctuate. Your financial advisers can help you select funds that match your tolerance for risk.

**3. Zero coupon bonds:** From a college savings viewpoint, the main advantage of zero coupon bonds is that the interest is deferred to maturity, when you receive a lump sum. Thus, this may be coordinated with the time your child will be entering college. Nevertheless, you must report tax on the interest that accrues each year the bonds are held.

**4. Certificates of deposit (CDs):** A conservative approach toward college savings is to invest in CDs. With a federally insured CD, the principal is effectively backed by the U.S. government.

**5. U.S. Savings Bonds:** This is another relatively conservative method of investing for college. You might include Series EE or inflation-indexed Series I bonds in your portfolio. You pay only half the face value of the bonds at the time of purchase. **Note:** If these savings bonds are bought in your child's name, they may be exempt from federal income tax if used to pay for college tuition (within certain limits).

**6. U.S. Treasury Bills (T-bills):** If you need to generate income quickly, you may decide to invest in T-bills with short-term maturities. T-bills are backed by the U.S. government, and the income is exempt from state and local income tax.

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Don't forget about the impact of the "kiddie tax." For 2008, a child's unearned income may be taxed at the parents' highest tax rate to the extent it exceeds $1,800. The kiddie tax generally applies to children who are under age 19 or are full-time students under age 24.

*Finally, you may benefit from programs such as Section 529 plans and other tax-advantaged devices. Section 529 plans generally offer a variety of investment choices. More information is available upon request.*

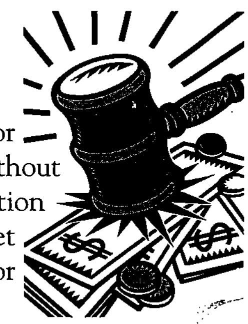
| Average annual college costs* | | | | |
|---|---|---|---|---|
| | 2007–2008 | 2006–2007 | $ change | % change |
| Public 4-year school in-state | $13,589 | $12,837 | 752 | 5.9 |
| Public 4-year school out-of-state | $24,044 | $22,811 | 1,233 | 5.4 |
| Private 4-year school | $32,307 | $30,497 | 1,810 | 5.9 |

**Tuition, fees, and room and board only.*

Source: College Board

# Step Up to Higher Section 179 Deductions

## *Be aware of two key tax law limits*



The Economic Stimulus Act of 2008 increased the annual limits for the Section 179 "expensing" deduction. For 2008, your business can currently write off up to $250,000 of qualified business assets placed in service during the year. Prior to the new law, the maximum deduction was $125,000 (inflation-indexed to $128,000 for 2008).

The increased Section 179 deduction may be claimed in conjunction with the 50% "bonus depreciation" deduction available under the new law. If there still is a balance after taking these two tax breaks, the remainder can be written off over time under the regular depreciation rules.

However, two important rules may limit your annual Section 179 deductions:

**1. Annual business income limit**: The expensing deduction cannot exceed the net taxable income from all the businesses you actively operate. For this purpose, net income is figured without regard to expensing, the 50% deduction for self-employment tax and any net operating loss (NOL) carryforwards or carrybacks.

For example, suppose you are a self-employed individual. Your net taxable income for 2008 is $200,000. If you buy assets costing $225,000 and place them in service this year, your Section 179 deduction is still limited to $200,000. The remaining $25,000 can be recovered through regular depreciation deductions.

**2. Annual dollar cap**: If the total cost of qualified business property placed in service during the year exceeds an annual threshold (indexed for inflation), the maximum expensing deduction is reduced on a dollar-for-dollar basis. Fortunately, the new law also increased this threshold. For 2008, the reduction begins when the cost of assets exceeds $800,000. Prior to the new law, the dollar cap was $500,000 (inflation-indexed to $510,000 for 2008).

Suppose your company places new equipment in service costing a total of $850,000 in 2008. Because you have exceeded the annual threshold by $50,000, your Section 179 deduction for 2008 is limited to $200,000 ($250,000 maximum allowance minus $50,000).

Note that the higher Section 179 maximum and dollar caps are effective only for 2008. The figures revert to their previous levels for 2009 and 2010.

Other special rules may apply to deductions for vehicles used for business purposes. Contact a professional tax adviser for more details.

### *Wash Sale Rule Extended to IRAs*

The IRS has finally issued the definitive word on "wash sales" inside an IRA.

**Basic premise:** Normally, if you incur a loss on the sale of a security, you can use the loss to offset annual capital gains plus up to $3,000 of ordinary income. But the wash sale rule prohibits you from deducting the loss if you buy back substantially identical securities within 30 days of the sale. **Silver lining:** You can add the nondeductible loss to your basis.

In settling a long-standing debate, the IRS now says that the wash sale rule applies if you buy back the securities through an IRA (either a traditional or a Roth). Plus, you cannot make a basis adjustment for the nondeductible loss.

Deductions for business assets in 2008 are claimed in this order: (1) Section 179 deduction, (2) bonus depreciation deduction and (3) regular depreciation deduction.

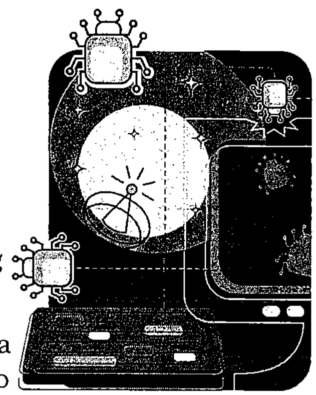
**Example**: Your business buys new computers in 2008 costing $300,000. Under the new rules, you can expense $250,000 of the cost under Section 179. Then your business claims 50% bonus depreciation on the $50,000 balance, or $25,000. Finally, you can take a first-year regular depreciation deduction for 20% of the balance, or $5,000.

**Result**: Your business is able to deduct a total of $280,000 cost in 2008. The $20,000 remainder is available for regular depreciation in subsequent years.

***Suggestion**: This is a good time to meet with a tax adviser to determine the best course of action this year.*

# Funding the Cure for Computer Viruses

## *Take steps to safeguard your business*



Can you imagine where your business would be without computers? For most business people, advanced technology has become a necessity rather than a luxury. But that puts a small business at even greater risk. That is why protection against computer viruses or similar "bugs" has become more critical than ever.

Although the exact terminology may differ among experts, the word "virus" is generally used to describe software that may be attached to other software or documents you might receive. When you run the software or the file the virus has infected, the virus infects your computer system. In effect, the virus spreads from one computer to another inside the workplace.

Here are several common problems your business may encounter.

♦ Your computer system may automatically send out e-mails containing more copies of the virus by using your address book.

♦ If the virus is a macro virus (e.g., attached to a document), it may attach itself to any document you create or modify. If an employee sends out another document to a client or associate, the virus tags along.

♦ A virus may be disguised as another program that secretly infects your system. If you pass the program along, you will be transmitting the virus manually to others.

♦ A "Trojan horse" is related to a virus, but it does not attempt to replicate itself. Instead, this program performs some undesirable actions while pretending to do something else. **Example**: A fake login program might collect account information and passwords by asking for this information like a regular login program.

The most practical deterrent is to install antivirus software on all computers. In fact, you should consider the cost of such software as part and parcel of the cost of buying a computer. Once the antivirus software has been installed, make sure you download regular updates. These "alert" the software about new viruses and provide means to detect them.

Generally, an antivirus software package provides updates for at least one year. You can usually set the software to automatically download updates or display a reminder to do so.

Antivirus software allows you to scan memory and hard drives for viruses. Depending on the software package, the program may also protect against incoming e-mails and e-mail attachments with viruses; viruses received through instant messages (IMs); infected downloaded files; and outside attacks against your system (e.g., firewall software). Other steps may be taken to protect your system against viruses, worms and the like. For example, assume that all suspicious-looking messages are a hoax until you know better. Subscribe to a security mailing list or visit security sites to learn more about prevalent worms and viruses.

*Be vigilant in deterring computer viruses. Remember that the stakes for your business are enormous.*

### *Give Us A Call!*

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

# How to Start a Nonprofit Organization

## *Summary of basic steps for a new entity*

If you are deeply committed to a charitable cause, you may decide to establish a nonprofit organization with a specific mission. However, you must be careful to observe all the technicalities in this area. Here are the basic steps to forming a nonprofit.

♦ Decide on the nonprofit's name. The name must be different from any one already registered with the state. (**Hint**: Try to be descriptive.) Check with the appropriate state office to determine if the name is still available. For a relatively small fee, you may be able to reserve the name.

♦ File articles of incorporation with the state. This documentation—which includes basic information like the nonprofit's name, address and telephone number—should have specific language that will help you obtain favorable tax status. If you are unsure of the procedures, seek professional assistance.

♦ Apply for tax exemptions. You must submit the proper forms, along with a copy of the articles of incorporation and the requisite fee, to the IRS in order to secure a federal income tax exemption. In a handful of states, you must follow similar procedures on the state level. In other states, obtaining the federal tax exemption will also qualify your organization for a state tax exemption. Check on the requirements for your state.

♦ Have bylaws drafted. The bylaws cover the rules relating to board meetings, voting on issues, and selecting a board of directors and officers. Typically, the bylaws are adopted by the corporation's directors at the nonprofit's first board meeting. Make sure you are well prepared for this occurrence.

♦ Appoint the board of directors. The board is responsible for making the main operational and financial decisions of the nonprofit. Depending on state law, you may be required to designate a specific number of board members (usually, at least three).

♦ Hold your first meeting. Besides adopting the bylaws at the first meeting, the board of directors will usually elect the nonprofit officers, record the federal and state tax exemptions and handle other pressing matters. After the meeting, ensure that the minutes are promptly filed in a binder.

♦ Obtain licenses and permits. Check with your appropriate state office about licensing requirements for the organization. For instance, if you are planning to offer products for sale to donors, you will need a sales tax permit. In addition, some activities may require a zoning permit.

*Don't hesitate to contact your legal and business advisers for assistance. They can help guide you along the way.*

# Facts and Figures

## *Timely points of particular interest*

➡**Low-cost Motivators**—Employees generally need motivation, but it does not always have to be costly. **One idea**: Try ordering in lunch from a local sub shop or pizza place. During your informal lunch break, watch a taped sitcom or a DVD in the conference room. Alternatively, take the crew outside to a park or garden. Or maybe you could go to a library, coffee shop or museum. In any event, it is possible to motivate creatively without breaking the bank.

➡**Trust Advisory Fees**—The U.S. Supreme Court recently ruled that the 2%-of-AGI (adjusted gross income) floor for miscellaneous expenses applies to most investment advisory fees paid by a trust. Now, in a follow-up ruling, the IRS says it will not apply this decision retroactively. Furthermore, for 2008 and later years, it is expected to exempt a set percentage of bundled fees from the 2% floor. This will make it easier to allocate fees.