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Happy New Year Everyone!

Please enjoy our first newsletter of the new year. It is tax time.....gather your records and give us a call. We are taking on new tax clients - individuals, businesses, trusts, etc. We look forward to working with you!

I wish for all of you a happy, healthy and prosperous 2013!

Nikki

January 2013

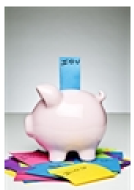
CMA Monthly News

Take your financial hat off and give it to us.

The Economics of Borrowing from Your 401(k)

When times are tough, that pool of dollars sitting in your 401(k) plan account may start to look attractive. But before you decide to take a plan loan, be sure you understand the financial impact. It's not as simple as you think.

The basics of borrowing



A 401(k) plan will usually let you borrow as much as 50% of your vested account balance, up to $50,000. (Plans aren't required to let you borrow, and may impose various restrictions, so check with your plan administrator.) You pay the loan back, with interest, from your paycheck. Most plan loans carry a favorable interest rate, usually prime plus one or two percentage points. Generally, you have up to five years to repay your loan, longer if you use the loan to purchase your principal residence. Many plans let you apply for a loan online, making the process quick and easy.

You pay the interest to yourself, but...

When you make payments of principal and interest on the loan, the plan generally deposits those payments back into your individual plan account (in accordance with your latest investment direction). This means that you're not only receiving back your loan principal, but you're also paying the loan interest to yourself instead of to a financial institution. However, the benefits of paying interest to yourself are somewhat illusory. Here's why.

To pay interest on a plan loan, you first need to earn money and pay income tax on those earnings. With what's left over after taxes, you pay the interest on your loan. That interest is treated as taxable earnings in your 401(k) plan account. When you later withdraw those dollars from the plan (at retirement, for example), they're taxed again because plan distributions are treated as taxable income. In effect, you're paying income tax twice on the funds you use to pay interest on the loan. (If you're borrowing from a Roth 401(k) account, the interest won't be taxed when paid out if your distribution is "qualified"--i.e., it's been at least 5 years since you made your first Roth contribution to the plan, and you're 59½ or disabled.)

...consider the opportunity cost

When you take a loan from your 401(k) plan, the funds you borrow are removed from your plan account until you repay the loan. While removed from your account, the funds aren't continuing to grow tax deferred within the plan. So the economics of a plan loan depend in part on how much those borrowed funds would have earned if they were still inside the plan, compared to the amount of interest you're paying yourself. This is known as the opportunity cost of a plan loan, because by borrowing you may miss out on the opportunity for additional tax-deferred investment earnings.

Other factors

There are other factors to think about before borrowing from your 401(k) plan. If you take a loan, will you be able to afford to pay it back and continue to contribute to the plan at the same time? If not, borrowing may be a very bad idea in the long run, especially if you'll wind up losing your employer's matching contribution.

Also, if you leave your job, most plans provide that your loan becomes immediately payable. If you don't have the funds to pay it off, the outstanding balance will be taxed as if you received a distribution from the plan, and if you're not yet 55 years old, a 10% early payment penalty may also apply to the taxable portion of that "deemed distribution."

Still, plan loans may make sense in certain cases (for example, to pay off high-interest credit card debt or to purchase a home). But make sure you compare the cost of borrowing from your plan with other financing options, including loans from banks, credit unions, friends, and family. To do an adequate comparison, you should consider:

- Interest rates applicable to each alternative
- Whether the interest will be tax deductible (for example, interest paid on home equity loans is usually deductible, but interest on plan loans usually isn't)
- The amount of investment earnings you may miss out on by removing funds from your 401(k) plan

How to Give Wisely and Well

These are a few of the organizations and agencies that publish reports and charity ratings, and/or give useful tips and information to consumers on choosing a charity and giving wisely:

- ***Better Business Bureau's BBB Wise Giving Alliance, www.bbb.org***
- ***Charity Navigator, www.charitynavigator.org***
- ***CharityWatch, www.charitywatch.org***
- ***Federal Trade Commission, www.ftc.gov***

Giving to charity has never been easier. You can donate the old-fashioned way--by mail--but you can also donate online, by text, or through social networking sites. According to the National Center for Charitable Statistics, over 1.4 million nonprofit organizations are registered with the IRS. With so many charities to choose from, it's more important than ever to ensure that your donation is well spent. Here are some tips that can help you become both a generous and wise donor.

Choose your charities

Choosing worthy organizations that support the causes you care about can be tricky, but it doesn't have to be time-consuming. There are several well-known organizations that rate and review charities, and provide useful tips and information that can help you make wise choices when giving to charity (see sidebar). To get you started, here are some questions to ask:

- *How will your gift be used?* It should be easy to get information about the charity's mission, accomplishments, financial status, and future growth by contacting the charity by phone or viewing online information.
- *How much does the charity spend on administrative costs?* Charities with higher-than-average administrative costs may be spending less on programs and services than they should, or may even be in serious financial trouble. Some charities who use for-profit telemarketers get very little of the money they raise, so ask how much of your donation the charity will receive.
- *Is the charity legitimate?* Ask for identification when approached by a solicitor, and never give out your Social Security number, credit card number, bank account number, account password, or personal information over the phone or in response to an e-mail you didn't initiate. There's no rush--take time to check out the charity before you donate.
- *How much can you afford to give?* Stick to your giving goals, and learn to say no. Legitimate fundraisers will not try to make you feel guilty, and will be happy to send you information that can help you make an informed decision rather than pressure you to give now.

Harness the power of matching gifts

Many employers offer matching gift programs that will match charitable gifts made by their employees. You'll need to meet certain guidelines--for example, your employer may only match your gift up to a certain dollar limit--and the charity may need to provide information. Check with your employer's human resources department or the charity to find out how you can maximize your donations through a matching gift program.

Put your gifts on autopilot

If you're looking for an easy way to donate regularly to a favorite charity, look into setting up automatic donations from a financial account. When donors contribute automatically, the charity benefits by potentially lowering fundraising costs and by establishing a foundation of regular donors. And you'll benefit too, because spreading out your donations throughout the year may enable you to give more, and will simplify your record keeping.

Look for new ways to give

Although cash donations are always welcome, charities also encourage other types of gifts. For example, if you meet certain requirements, you may be able to give stock, direct gifts from your IRA or other retirement account, real estate, or personal property (but check with your financial professional to assess potential income and estate tax consequences based on your individual circumstances). You can also volunteer your time, using your talents to improve the lives of others in your community. And taking a "volunteer vacation" can be a fun way to involve your family and meet other people across the country or world who share your enthusiasm for a particular cause.

Use planned giving to leave a legacy

You can leave an enduring gift through your estate. For example, you might leave a will bequest, give life insurance, or use a charitable gift annuity, charitable remainder annuity trust, or charitable unitrust that may help you give away the asset now, while retaining a lifetime interest--check with your financial or tax professional regarding any potential estate or tax benefits or consequences.

Keep good records

If you itemize when you file your taxes, you can deduct donations you've made to a tax-qualified charity, but you may need documentation. Keep copies of cancelled checks, bank statements, credit card statements, or receipts from the charity showing the charity's name and the date and amount of the contribution. For donations or contributions of $250 or more, you'll need a more detailed written acknowledgment from the charity. For more information and a list of requirements, see IRS Publication 526, Charitable Contributions.

Real-life Financial Tips for Different Generations

Do you remember The Game of Life®? In Milton Bradley's popular board game, players progress through life stages making decisions that affect their prosperity. Like those players, today's generations face financial decisions with lasting effects. Here are some tips for staying focused despite life's ups and downs.

Generation Z (teens to early 20s):

Accustomed to instant gratification, the "Digital Generation" may need to recognize that financial success takes diligence and patience. Consider sharing the following advice with the Gen Zers in your life:

Live within your means. Your first paycheck provides the chance to learn valuable lessons, such as creating a budget and spending less than you earn.

Build a saving habit. You have one powerful advantage over other generations--time. Why not make saving automatic and direct a part of your paycheck into a savings or investment account?

Understand credit and credit reports. A good credit history helps you get a car loan and a mortgage, but a bad one can ruin your borrowing chances for years. Reviewing your credit report regularly can help you manage your finances and protect your identity.

Generation Y (20s and early 30s):

In this group, you could be juggling your first "real" job, college loans, marriage, a first home, and young children. Three points for you:

Risk management isn't just for companies. Save 6 to 12 months' worth of living expenses in a savings account for unexpected emergencies. Review your insurance, and at a minimum, have health and property coverage. Also consider disability insurance, which helps pay the bills during a health crisis.

Start saving for retirement ... Like Generation Z, time is your strongest ally. Participate in a retirement savings plan at work, if offered, and if your employer offers a match (free money!), contribute enough to get all of it. If you don't have a plan at work, open an individual retirement account (IRA) and invest what you can (up to annual limits).

... And your children's college. In 18 years, a four-year degree could cost as much as several hundred thousand dollars. Give your children a head start by saving now.

Generation X (30s and 40s):

Home ownership, older children, a career in full swing--if you're in this group, your finances may take a back seat to life's daily demands. To help stay focused, consider the following:

Retirement savings trump college savings. Don't risk your future to pay for your children's entire education. There's no financial aid office in retirement.

Don't neglect your health. Are you experiencing new aches and pains? At this age, medical issues can begin to surface, demanding time, energy, and financial resources. Take care of yourself, and before an emergency arises, review your health and disability coverage.

Create a will, if you don't already have one. This important document can help ensure your children are cared for and your assets are distributed according to your wishes. Medical directives should also be established now.

Baby boomers (50s and 60s):

If you're in this age group, you may have both adult children and elderly parents who need assistance, as well as an impending or current retirement. Pointers for you include:

Shift your retirement savings into high gear. People over 50 benefit from higher savings limits on 401(k)s and IRAs. Strive for the maximum.

Visit a financial professional. When should you tap Social Security and your retirement savings? How should you invest your assets to potentially provide a lifetime of income? A financial professional can be a critical coach at this time of your life.

Investigate long-term care insurance. These policies help protect your family's assets from the potentially devastating effects of long-term care. The older you get, the more expensive these policies can be.

Retirees:

The Game of Life ends when players reach retirement, but not so in real life--you still have years ahead of you. Consider the following:

Review the basics. Whether you plan to travel to exotic locales or play board games with your grandchildren, a key to happiness is living within your means. Develop a realistic budget and don't exceed your spending limits.

Manage your income stream. A financial professional can help you choose vehicles and determine an investment strategy to help ensure you don't outlive your assets.

Plan for your family's well-being. A properly crafted estate plan can help you ensure that your wishes are carried out--for both your and your family's peace of mind.

CMA

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Is winter storm damage covered by my homeowners insurance policy?

Whether or not winter storm damage is covered by your homeowners insurance policy will depend on the type of policy you have and the type of damage that occurs.

Most standard homeowners insurance policies provide coverage for winter-related storm damage that occurs as a result of wind, snow, ice, freezing rain, and severe temperatures. You'll want to review your homeowners policy to find out which wintertime perils are specifically covered.

It is important to note that standard homeowners insurance policies do not provide coverage for flood damage. So if your home has suffered damage from winter-related flooding (e.g., a heavy snow melt), you generally won't be covered unless you have a separate flood insurance policy in place.

Finally, if your home suffers damage while you leave it unattended during the winter, you'll have some additional issues to consider. For example, certain homeowners policies have exclusions for damages that result from a home not being properly winterized (e.g., not shutting off the water and draining the pipes) or a home being left unoccupied for a long period of time (e.g., more than 30 days).

While your insurance may provide some coverage for winter storm damage, the best option is to take steps to prevent winter-related damage from occurring in the first place. The following are some tips to help protect your home from harsh winter weather:

- Clean your gutters and downspouts so that melting snow can flow freely away from your home
- Inspect and repair roof shingles and flashing to prevent water damage
- Trim tree branches on your property
- Apply weather stripping and caulking around doors and windows and inspect storm doors and windows for broken glass
- Drain water from pipes leading to exterior faucets and remove garden hoses
- Insulate pipes that are susceptible to freezing
- Have your heating system cleaned and inspected

I just installed a new furnace in my home. Is the energy tax credit still available?

Unfortunately, most of the tax credits for making energy-efficient improvements to your home, such as installing a new furnace, are no longer available.

The Energy Tax Incentives Act of 2005 provided tax credits for a variety of energy-saving home improvements, such as installing new windows, water heaters, and furnaces. Unfortunately, these tax credits expired at the end of 2011. However, there are still a few energy tax credits that are available through 2016 for the installation of larger, more costly energy-saving systems, such as geothermal heat pumps and solar energy systems.

Even though the furnace-related energy tax credit is no longer available, you may still be able to save money on the installation of your furnace. Check to see if rebates for energy-saving home improvements are offered through your utility company or your state or local municipality. You can go to www.energy.gov for more information.

While the rebates may not equal the expired tax credits in terms of cost savings, they often provide incentives of up to a few hundred dollars per installation. When applying for an energy rebate, consider the following:

- Energy rebates usually require the product to be ENERGY STAR certified
- The amount of the rebate may hinge on the energy efficiency of the product (e.g., a furnace that has a higher efficiency will be eligible for a larger rebate)
- The rebate may only be available for products that have been installed by a certified contractor
- You may have to apply for the rebate within a certain time period after the installation of your energy-saving product

Finally, keep in mind that even though you missed out on the financial benefits of a tax credit, installing a more energy-efficient furnace can end up saving you money in the long run. According to the U.S. Department of Energy, installing a higher-efficiency heating system along with making energy-efficient upgrades can often result in cutting your winter home heating costs in half.