

Right On The Money

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Netting & Pace will be the premier provider of comprehensive, customized, fee-only financial services to thoughtful, knowledgeable families.

We will provide flawless service so families can achieve their goals, secure their futures, and remain comfortable. We will exceed our clients' expectations, enhance our employees' careers, and enjoy our work.

How the Pension Protection Act of 2006 Can Save You Money

By: Conrad J. Netting



Though media attention has been slight, the 907-page Pension Protection Act of 2006 does have a basketful of goodies that can help trim your income taxes. You can:

1. Send IRA payouts to charities. For 2006 and 2007 only, anyone who is 70-1/2 or older can send IRA funds directly to a charity (but not donor-advised funds, supporting private foundations, or private foundations). So, instead of paying tax on your IRA withdrawal, then deducting your donation, the entire transaction skips your tax return. The donation is not limited to 50% of your income and does not suffer from high-income limitations.
2. Deposit tax refunds into your IRA. To encourage retirement saving, Congress now allows us to direct part or all of your tax refund into your IRA. This is effective for 2007's refunds. The deposit must meet IRA contribution rules and limitations.
3. Roll an inherited retirement plan into your IRA. Nonspousal heirs can, after 2006, enjoy the same benefits as spouses by taking payouts over their lifetime, not the five years or less previously required.
4. Look for more Roth 401(k) plans. These plans, slated to disappear in 2011, are made permanent by the Act. Therefore, more employers will offer them. If you are eleven years or more from retirement, Roth 401(k)s may make more sense than traditional 401(k)s.

Retirement Account Beneficiaries

By: Michelle R. Scarver, CPA



If you have a retirement account please pay close attention to the designation of your beneficiary. Your designation overrides any bequests that you have made in your will.

Also, be sure to name a contingent beneficiary. For example, if you named your spouse as your primary beneficiary but did not name a contingent beneficiary and you and your spouse die at the same time, then the account passes to your estate. In that event, and if you have not yet reached your required beginning date for distributions, the account would have to be paid out to your estate by December 31 of the fifth year following the year of your death. If you die after the required minimum distributions have begun, then the account can be paid to your estate over time, based on your remaining life expectancy calculated as of the year of your death.

Spousal Beneficiary

If you designate your spouse as the primary beneficiary of your retirement account, your spouse can roll it over into an IRA of their own and can continue to contribute to it. There is no difference in how the IRA inherited by a spouse is treated from one a spouse opens.

Non-Spousal Beneficiaries

As a result of the Pension Protection Act of 2006 a non-spousal beneficiary, including children, can now roll over assets inherited from a qualified retirement plan to their own IRA. The IRA account will carry the designation "Inherited IRA." The beneficiary will avoid tax on the rollover and will pay taxes only as the assets are withdrawn. Distributions are required over the beneficiary's life expectancy. Previously this tax treatment was available only to people who inherited retirement assets from a deceased spouse.

You can also name an entity, charity, or non-qualifying trust as a beneficiary. When an owner dies younger than age 70-1/2 (the year distributions are required to begin), the assets must be completely distributed by December 31 of the fifth year following the year of the owner's death. If the owner was living on April 1 of the year after age 70-1/2, the distributions are based on the remaining life expectancy of the owner as if he or she were still alive.

There is an exception to these rules if there are multiple beneficiaries and one of the beneficiaries is a charity. If the charity is fully paid off by September 30 of the year following your death, then the remaining beneficiaries can divide the account among themselves and each beneficiary can use his or her own life expectancy.

Personal update: In September I celebrated my seven-year anniversary with Netting & Pace. The saying is true. Time does fly when you are having fun.

Dates To Remember



By: Sandra Beltran

November 2006

Special Dates

November 11 – Veterans' Day
November 23 – Thanksgiving Day

Office Holidays

November 23 - Thanksgiving Day
November 24 - Thanksgiving
Holiday

Tax Due Dates

None

December 2006

Special Dates

December 22 – Winter Begins
December 25 – Christmas Day

Office Holidays

December 22 – Christmas Holiday close at
Noon
December 25 – Christmas Holiday

Tax Due Dates

December 15

Corporations (calendar-year)
Deposit the fourth installment of estimated
income tax for 2006.

January 2007

Special Dates

January 1 – New Year's Day
January 15 – Martin Luther King Day

Office Holidays

January 1 – New Year's Holiday

Tax Due Dates

January 16

Individuals

Federal Individual Estimated Tax fourth
payment (Form 1040ES)

Fiduciary

Fiduciary Estimated Tax fourth payment
(Form 1041ES)

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Another new issue is donations of clothing and household items are not deductible unless they're in "good" condition or better. Congress, as you would imagine, did not define "good." If your donations of this type are significant, you might consider taking pictures of the items before you donate them.

Bad news: Uncle Sugar expanded the kiddie tax. The new expanded definition of children is now "up to age 18" from "up to age 14" meaning more children will be subject to tax at their parents' rate.

Solution: put children's investments in tax-free fixed income positions or in dividend paying stocks.

Finally, at press time the sales tax deduction for Texans had not been extended. If Congress doesn't act soon, that lagniappe will be history.

So, the mixed bag of new laws joins the cooked hash of old laws. Result: more nooks and crannies for us to look in to save you dollars. Armed with our 2,000-page analysis of the new law, we're ready.

Personal update: Pauleen and I have bought a cabin in Estes Park, Colorado. Once the remodeling is finished (not easy to do 1,000 miles away), our goal is to be in the mountains with our whole family for a white Christmas.

CONSUMER PRICE INDEX All Urban Consumers (1982-1984=100)

To figure the percentage increase between any two months: subtract the index for the earlier month from that of the later month. Divide that number by the index for the earlier month. And then multiply by 100 by moving the decimal two places to the right.

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Percent Increase
													Jan - Dec
1966	31.8	32.0	32.1	32.3	32.3	32.4	32.5	32.7	32.7	32.9	32.9	32.9	3.5
1967	32.9	32.9	33.0	33.1	33.2	33.3	33.4	33.5	33.6	33.7	33.8	33.9	3.0
1968	34.1	34.2	34.3	34.4	34.5	34.7	34.9	35.0	35.1	35.3	35.4	35.5	4.7
1969	35.6	35.8	36.1	36.3	36.4	36.6	36.8	37.0	37.1	37.3	37.5	37.7	6.2
1970	37.8	38.0	38.2	38.5	38.6	38.0	39.0	39.0	39.2	39.4	39.6	39.8	5.6
1971	39.8	39.9	40.0	40.1	40.3	40.6	40.7	40.8	40.8	40.9	40.9	41.1	3.3
1972	41.1	41.3	41.4	41.5	41.6	41.7	41.9	42.0	42.1	42.3	42.4	42.5	3.4
1973	42.6	42.9	43.3	43.6	43.9	44.2	44.3	45.1	45.2	45.6	45.9	46.2	8.7
1974	46.6	47.2	47.8	48.0	48.6	49.0	49.4	50.0	50.6	51.1	51.5	51.9	12.3
1975	52.1	52.5	52.7	52.9	53.2	53.6	52.2	54.3	54.6	54.9	55.3	55.5	6.9
1976	55.6	55.8	55.9	56.1	56.5	56.8	57.1	57.4	57.6	57.9	58.0	58.2	4.9
1977	58.5	59.1	59.5	60.0	60.3	60.7	61.0	61.2	61.4	61.6	61.9	62.1	6.7
1978	62.5	62.9	63.4	63.9	64.5	65.2	65.7	66.0	66.5	67.1	67.4	67.7	9.0
1979	68.3	69.1	69.8	70.6	71.5	72.3	73.1	73.8	74.6	75.2	75.9	76.7	13.3
1980	77.8	78.9	80.1	81.0	81.8	82.7	82.7	83.3	84.0	84.8	85.5	86.3	12.5
1981	87.0	87.9	88.5	89.1	89.8	90.6	91.6	92.3	93.2	93.4	93.7	94.0	8.9
1982	94.3	94.6	94.5	94.9	95.8	97.0	97.5	97.7	97.9	82.2	98.0	97.6	3.8
1983	97.8	97.9	97.9	98.6	99.2	99.5	99.9	100.2	100.7	101.0	101.2	101.3	3.8
1984	101.9	102.4	102.6	103.1	103.4	103.7	104.1	104.5	105.0	105.3	105.3	105.3	3.9
1985	105.5	106.0	106.4	106.9	107.3	107.6	107.8	108.0	108.3	108.7	109.0	109.3	3.8
1986	109.6	109.3	108.8	108.6	108.9	109.5	109.5	109.7	110.2	110.3	110.4	110.5	1.1
1987	111.2	111.6	112.1	112.7	113.1	113.5	113.8	114.4	115.0	115.3	115.4	115.4	4.4
1988	115.7	116.0	116.5	117.1	117.5	118.0	118.5	119.0	119.8	120.2	120.3	120.5	4.4
1989	121.1	121.6	122.3	123.1	123.8	124.1	124.4	124.6	125.0	125.6	125.9	126.1	4.6
1990	127.4	128.0	128.7	128.9	129.2	129.9	130.4	131.6	132.7	133.5	133.8	133.8	6.1
1991	134.6	134.8	135.0	135.2	135.6	136.0	136.2	136.6	137.2	137.4	137.8	137.9	3.1
1992	138.1	138.6	139.3	139.5	139.7	140.2	140.5	140.9	141.3	141.8	142.0	141.9	2.9
1993	142.6	143.1	143.6	144.0	144.2	144.4	144.4	144.8	145.1	145.7	145.8	145.8	2.7
1994	142.2	146.7	147.2	147.4	147.5	148.0	148.4	149.0	149.4	149.5	149.7	149.7	2.7
1995	150.3	150.9	151.4	151.9	142.2	152.5	152.5	152.9	153.2	153.7	153.6	153.5	2.5
1996	154.4	154.9	155.7	146.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	3.3
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	1.7
1998	161.6	161.9	164.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	1.3
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	2.7
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	3.4
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	2.8
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	1.6
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	2.3
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	2.7
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	3.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5						

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The Insidious Effect of Inflation

By: Kristin Carlton



Consider two facts: (1) For a couple age 65, one of them has a 50% chance of living to age 92, roughly 30 years. (2) Inflation averages 3% annually. Blend these facts and you'll see that over thirty years of retirement, inflation will cause prices to rise 300%.

For proof, check the chart on page 4. The CPI in July 2006 was 203.5. In July 1976, 30 years earlier, it was 52.2. So, whatever costs \$203 now, cost \$52 then. Looking forward, the same item will cost \$812 in 2036 when half of today's 65-year-old couples have one spouse still living.

Here's the challenge: How can your investments keep up with this inflation rate? To do so they must produce 3% annually to cover inflation plus a reasonable amount for you to live on, say 4%. What portfolio can produce 7%? Not a bond portfolio and not a CD portfolio and not a Treasury bill portfolio. Stocks have to be part of the equation or you can't protect your purchasing power.

We create inflation-proof portfolios every day and we can help you with yours. Give us a call and see what we mean.

Personal update: It sure was hot this summer! I purchased my first home this spring, and never realized the true meaning of "Texas Heat" until my grass started to die and I could never remember my one day a week! I am looking forward to a beautiful fall.



The Texas "Margin" Tax-In Brief

By: Sandy Lowak



House Bill 3 has amended the Texas Tax Code revising the franchise tax. Entities that were previously not subject to the franchise tax, such as professional associations, may now be subject to the revised "margin" tax.

The tax base is now determined by an entity's "margin." This is the lesser of: 1) total revenue minus cost of goods sold; 2) total revenue minus compensation; or 3) total revenue times seventy percent. The tax rate is 0.5 percent for retail and wholesale businesses, including eating and drinking establishments. For all other entities the tax rate is 1 percent. Certain entities are still excluded from the tax, and, of course, there are some exemptions. Call our office to find out more details or visit the Texas Comptroller website at www.window.state.tx.us.

Personal update: My husband and I are planning our second trip this year to Fabulous Las Vegas. There are many fascinating sights to see in the city. This time, though, we also plan to visit the Hoover Dam.

The \$100 Prayer

By: Brenda Cadore



A little boy, who wanted \$100 very badly, prayed for two weeks but nothing happened. Then he decided to write God a letter requesting \$100.

When the postal authorities received the letter to God, U.S.A., they decided to send it to the President. The President was so impressed, touched, and amused that he instructed his secretary to send the boy \$5. Mr. President thought that this would appear to be a lot of money to the little boy.

The little boy was delighted with the \$5 and immediately sat down to write a thank you note to God that read: "Dear God, Thank you very much for sending me the money. However, I noticed that for some reason you had to send it through Washington, D.C., and, as usual, those JERKS deducted \$95 for taxes!"

-Author Unknown

Personal update: I celebrated my two-year anniversary with Netting & Pace, CPAs this summer. I have enjoyed my time and look forward to many more years of service here.

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Special Updates

Netting & Pace is proud to announce:

- The arrival of our new website. Take a look and learn a little more about us. Visit www.nettingpace.com
- We have now been recognized for the past five years as a Top Wealth Manager by Bloomberg Magazine.

For some seniors, the enrollment deadline for selecting your Medicare prescription drug plan is rapidly approaching. December 31 is right around the corner. If you need help selecting the perfect plan, let us help. Ask for Kristin Carlton.