

January, 2007

Taxes By Brotman

What is my tax bracket?

For 2006 there are six tax brackets for your ordinary (non capital gain and non Alternative Minimum Tax) income. The tax rates for these brackets are 10%, 15%, 25%, 28%, 33%, and 35%. The amount of income subject to tax at the various rates depends on your filing status (Married, Single, Head of Household, Married Filing Separately). When we calculate your federal income tax, we look at your total taxable income and then allocate the income up through the brackets starting with the lowest tax rate. When someone says he is in the 35% tax bracket, that means that the next dollar of taxable income that he has will be taxed at 35%. It does not mean that all of his taxable income is taxed at 35%. This is commonly misunderstood. I like to think of the brackets as steps going up a staircase. Each bracket can be a step.

For a married couple with \$200,000 in taxable income, the first \$15,100 of their income is taxed at 10% (step one), \$46,200 is taxed at 15% (step two), \$62,400 is taxed at 25% (step three), \$64,750 is taxed at 28% (step four), and \$11,550 is taxed at 33%. You can see that “only” \$11,550 of this couple’s taxable income is taxed at 33% even though they can say they are in the 33% tax bracket. It might be of greater interest what their total tax is as a percentage of their total taxable income.

Tax organizers

You will be receiving your 2006 tax organizer within the next week. If you do not receive yours, please let me know. We delayed sending them “early” this year since it seemed as though sending them during the holidays caused them to be set aside and misplaced or just plain old made us think of taxes instead of the holidays! If you have any questions about the organizers, please call me. As in years past, in addition to the paper organizer, we are also able to email your organizer (as a PDF file) or make it available through a secure portal on our website.

For the web based organizer, you are able to actually complete the organizer on-line from any computer that has internet access through a personalized secure private link on our website. You can add notes and even attach

files (for example an Excel file of your stock trades). You can access the organizer as many times as you like so you can enter data as it comes in. When you have the organizer completed, you are able to send us an email indicating your data is complete. We can then retrieve that data. There is no fee to you for this web access. Of course we still need your standard source documents (Forms W-2, 1099s, K-1s, etc.). These can be sent through the mail, hand delivered, or even scanned in and attached to the organizer if you like.

If this web process interests you or you just want to “check it out”, let me know and I will post your tax organizer and send you an email with your user name and password.

Don’t forget we are also able to generate copies of your tax returns as PDF files. These files can be emailed to you or saved to a disk, CD, or any other storage device. Let us know if you ever need a copy of your returns in this format.

Changes and more changes

There have been so many recent changes in the tax regulations that the IRS has been unable to adjust the tax forms to incorporate the changes. They have finally given up for this year and in true IRS spirit have issued additional regulations to guide us in preparing returns on forms that are inconsistent with the tax law. Specifically, the IRS has explained how individuals can claim three extended deductions on paper forms for tax year 2006 that it won't be updating. These are the deductions for state and local sales tax, higher education tuition and fees, and educator expenses. They had expired under prior law but were revived and extended by the recently enacted Tax Relief and Health Care Act of 2006. IRS says that the 2007 filing season will begin on time but that it won't be able to process returns taking advantage of these extended deductions until early February 2007.

Sid

I am pleased to report that Sid is recovering nicely from his shoulder surgery.

Don't Forget The Perks

The McGill Advisory, a monthly newsletter published by a firm of dental consultants out of Charlotte, North Carolina, had an excellent article in its' October 2004 issue. It was a story about a retirement plan gone wrong. It read as follows:

“Recently I reviewed a retirement plan prepared for a client by a large stock brokerage firm. The financial plan was quite impressive in size—running over 60 pages including multicolored charts and graphs. The conclusion was that the doctor was on track to accumulate the assets necessary at retirement in order to fully meet his current living expenses.

Unfortunately, the impressive work product arrived at the wrong conclusion, since it failed to include sufficient retirement assets to cover expenses which, though paid now by the practice as “perks”, would continue on into retirement. For example, the doctor's family medical expenses included \$12,000 in annual premium costs, plus an additional \$8,000 in medical reimbursement benefits. Since the doctor planned to retire at age 55, these costs would continue and escalate until the doctor reached age 65. Even then, substantial costs would still need to be covered. Even though Medicare would typically become the primary policy at 65, supplemental medical insurance premium costs would continue, and out-of-pocket expenses would most likely increase.

In addition, the doctor was paying over \$15,000 for business automobile costs for two cars which he would continue to operate post-retirement. He typically ran \$10,000 or more of travel costs through the corporation which would not only continue, but probably increase in retirement. Another \$6,000 annually was spent on meal and entertainment expenses, while the doctor deducted another \$5,000 annually in dues and subscriptions. Finally, the doctor had another \$4,000 in miscellaneous benefits paid through his practice that would continue in retirement. All told, this doctor had over \$60,000 in expenses, currently paid by his practice, which would continue into retirement.

Given his life expectancy and current

investment returns, the doctor would need another \$1,000,000 in liquid assets at retirement to maintain the cash flow necessary to assure the continued payment of these benefits upon his retirement. So, when preparing an analysis to determine when you can afford to retire, don't forget to consider the current practice-funded benefits that will continue into retirement. Only then will you be assured that the analysis reaches the correct result for you.”

Efficient Markets and Information

A Rothschild once placed his family's entire fortune in the London stock market in an attempt to save the British financial system. There was a tidal wave of selling, as traders dumped stocks at any price, anticipating a Napoleonic victory in the war. Just as the great resources of the House of Rothschild are about to be exhausted, Rothschild demands the attention of the traders to announce that Wellington has been victorious. The traders mock him, saying that he is just trying to save his own fortune with this false rumor. At this point he must disclose a great family secret. One reason the Rothschilds were able to amass their fortune was that they were always a step ahead of the public in terms of information. While the fastest ships in the British fleet are just beginning to sail with the news of Napoleon's defeat, carrier pigeons had already delivered the news into the Rothschild's hands. With this disclosure prices soar, and the Rothschilds emerge richer than ever.

The Rothschild's advantage is not possible today, as information is carried all over the globe instantly. And, markets adjust to news almost instantaneously. An efficient market exists when trading systems fail to produce returns in excess of the market's overall rate of return because stocks are already trading at what they are worth based on all *available* information.

Accordingly, there are only two ways to outperform an efficient market. The first is to use insider information, which is illegal. The second is to interpret the available information more correctly than the market, which is unlikely. The safest bet for most people? It is probably index funds selected and monitored by pros tracking a well-designed financial plan.

Sid Bits

The vehicles of my wife and I have taken a beating this year. A few months ago I got rear-ended here in the parking lot of the office. Last month my wife had someone back into the side of her minivan at a strip center. Also last month, my SUV was rear-ended on the Virginia Beach-Norfolk Expressway.

I was driving into Norfolk a little after 9 AM on a weekday when I noticed cars stopping in my lane. I slammed on brakes and came to a stop a few feet from the car in front of me. The young man following me was not so lucky. He hit me.

It seems that a large flatbed truck had dropped about half a dozen 2X4X10s off its side. The truck had stopped and six cars had stopped behind it before me. It was fortunate that I still had my foot on the brake when the car following me hit me. Otherwise, there would have been a nasty chain reaction.

At least, no one was injured in any of these accidents.

I recently read that just as many accidents are caused by drivers talking on cell phones while driving as are caused by drunk drivers. Watching how some people drive while talking on their cell phones, I believe it.

Speaking of drunk driving, this is the season where there is a lot of it. Let me tell you a story I read, supposedly true:

Following a really good party one night, the hosts decided to leave the assorted bottles and dregs until the next morning. As they staggered downstairs the next day, they found their young children finishing all they could find, and looking the worse for wear.

Not knowing what to do, the father suggested taking them out in the car for some fresh air. A traffic policeman, seeing the car going round and round the block for no reason, pulled him over and breathalysed him...and the meter showed positive.

While matters were being sorted out, one of the children asked the policeman if he could try the breathalyzer...and the meter again showed positive!

"Damn!" said the policeman, "another faulty meter!" He then apologized to the driver for stopping him and drove off without another word!

(Do not try this at home. You could be charged with child endangerment!) 3

School For Scoundrel

Illinois state officials recently charged Thomas Ryan, a Sauks Village schools superintendent, with stealing over \$100,000 from one of the county's poorest districts. Ryan, known for his "hard-nosed" policies throughout the district, once suspended a student who brought a water gun to school, tried to bar students from graduation because their parents could not afford book fees, and tried to prevent homeless children from attending classes. Due to an apparent lack of funds, the district's students went without a music program (which on paper supposedly existed) and had limited sports and art class offerings. Students were also forced to eat lunch in their classrooms. Additionally, the district spent far less money on instruction per student than the state average. On top of the theft accusation, Ryan faces charges of bribery, intimidation, harassment of a witness, obstruction of justice, and official misconduct.

Investigators raided Ryan's house and found \$730,000 in cash that is believed linked to the crime. The cash was found in laundry baskets, car compartments, and other hidden places around his house.

Ryan supposedly used \$70,000 on his three daughters' college educations. His superintendent's salary was \$183,000 a year.

According to Cook County state's attorney Dick Devine, "Mr. Ryan milked the milk fund at the school, he stole from library fees, and he took book fees that were obviously intended for other purposes."

Ryan faces up to 30 years in prison if convicted.

We all want to be famous people, and the moment we want to be something we are no longer free.

J. Krishnamurti

The Way is not difficult; only there must be no wanting or not wanting.

Chao-chou

So long as we are not satisfied, we will live with a tension that denies our birthright. Try, even for just a few moments, to totally relax. Give up your worries and just be content. It feels wonderful!

Sid

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Yiddish

Yiddish is a non-territorial Germanic language, spoken throughout the world and written with the Hebrew alphabet. It originated in the Ashkenazi culture that developed about from the 10th century in central and eastern Europe, and spread via emigration to other continents. For a significant portion of its history, it was the primary spoken language of the Ashkenazi Jews. The Yiddish that is a live language today, *Eastern Yiddish*, has a significant Slavic component to its vocabulary, unlike the virtually extinct *Western Yiddish*.

Between 80% and 90% of the Jews in the world today are Ashkenazi Jews. Ashkenaz was a great-grandson of Noah.

Yiddish is the official language of the Jewish Autonomous Oblast in Russia and is a legally recognized minority language in Sweden and Moldova.

Russia is divided into 88 administrative units, variously called Republics, Krai, Oblasts, Federal Cities, Autonomous Okrugs, and a single Autonomous Oblast, that being the Jewish Autonomous Oblast. Currently, it is neither Jewish, nor autonomous. Depending on which source one may believe, the Jewish population of the Jewish Autonomous Oblast is 1.2% or 16% of the population. If the 1.2% estimate is correct, it means that perhaps there are 2,000 Jews there out of a population of 200,000. There is only a single synagogue, that is located in the capital city of Birobidzhan.

The Jewish Autonomous Oblast was set up by the Russian government in the northern southwest corner of the Khabarovski Krai on the border of China in 1928 to settle the "Jewish Question". The idea was to set up a Jewish Homeland where the Jews could live and work without fear of repression. This location was chosen after failures in the Ukraine and Crimea due to local resistance.

The reason that this particular place was finally chosen was three-fold. First, there was little opposition, as the land was sparsely-settled, it being swampy and subject to harsh winters. Second, by devoting resources and land to the Jews, the Russian government hoped to attract Jewish money and settlers from abroad. Third, settling and developing the area would strengthen Soviet control (vis-à-vis China), using the Jews in much the same way the Romans 2,000 years earlier when they formed a barrier against the "barbarian" tribes who constantly attacked Roman-dominated lands.

I apologize for running on with the history. That was not my intention. I just wanted you to have a little background on Yiddish before I passed on a few Yiddish (or Jewish) proverbs that Martin Waranch passed on to me:

When you teach your son, you teach your son's son.

One of life's greatest mysteries is how the boy who wasn't good enough to marry your daughter can be the father of the smartest grandchild in the world.

When a thief kisses you, count your teeth.

A man is not honest simply because he never had a chance to steal.

Don't judge a man by the words of his mother, listen to the comments of neighbors.

If the rich could hire other people to die for them, the poor could make a wonderful living.

A hero is someone who can keep his mouth shut when he is right.

What you don't see with your eyes, don't invent with your mouth.

Until next month,

