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man trying to cross a river on a log with several people yelling different directions. What the man doesn't realize is that each person trying

to help is standing in a different place and thereby advising from differing points of view. Adjustments may need to be made to move forward, but the news and the noise are not the best ways to decide.

Restoring Our Health— An Editorial

We often hear that to live longer and healthier we need regular exercise – often more than we enjoy. Regardless, many American's look for the painless way to do it with a pill or some device that shakes our fat while we watch TV. But these easy fixes rarely work.

So I expect it to be over the next several years. Our country has gotten a bit fat and lazy, at least from a financial standpoint. Credit has been easy and cheap. Low interest rates allowed consumers to borrow more than they could afford, and our government could borrow from abroad at some of the lowest rates in a generation.

Now we are feeling the pain. Home values in many parts of the country have dropped a total of over \$1 trillion, and the lenders (and those who purchased the loans from them) have seen their very existence threatened. We are still spending over \$12 billion a month – on credit – to fight two wars, while we are being told to shop to help the economy.

The truth is we will be forced to go on a low-credit diet, painful though it may be. The exercise should lead to better health for all, but it will not be easy.

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Financial Catalyst Group was founded in 1977 to help successful people articulate their goals, and realize their dreams to protect and preserve their hard-earned wealth. At Financial Catalyst Group we provide Wealth Architecture™ services that result in the implementation of value-added plans for the responsible transfer of wealth through the generations. We specialize in working with families that desire to provide a legacy to their families and their communities, making gifts instead of paying transfer taxes. We work closely with these families and their advisors to form a strong, results-oriented team.



Wealth Architecture™ Digest

Often people do not plan because they see only what is, and they do not have a vision of what can be. Something is always possible. We believe that, with vision, the possibilities are almost unlimited.

Donor Beware

It is very important to understand how inflexible our tax system is when it comes to charitable deductions. You may find the following information disturbing, but ultimately very helpful.

Just last month the Tax Court sided with the IRS in disallowing a \$6,548 deduction even though there was no question about the legitimacy of the taxpayer's charitable donations. The case *Gomez v. Commissioner*, T.C. Summary 2008-93 (7/30/08) dealt with the hard-and-fast rules of proper substantiation. The most important lesson in this ruling is that the deduction was disallowed based solely on a technical violation. While cases like this are rare, they serve to remind us that the rules are the rules.

Treasury Regulation 1.170A-13 (f)(1) deals with the substantiation of charitable gifts of \$250 or more. It states:

(1) IN GENERAL. No deduction is allowed under section 170(a) for all or part of any contribution of \$250 or more unless the taxpayer substantiates the contribution with a contemporaneous written acknowledgment from the donee organization.

In the Gomez case the donations involved were all to the Gomez's church for tithes. The taxpayers provided written substantiation from the donee charity, but it appears that it was secured after the taxpayers were already being audited

for 2005, as it was dated January 22, 2008. By then it was too late. The regulations require that the written acknowledgment be *contemporaneous*, which is firmly defined as not later than the date of filing of the tax return.

There is no way to know if the taxpayers had not received receipts for the checks (there were 20 checks in question that year). Even though the total was pretty small, the IRS found it, and without the timely written receipts, disallowed the deduction.

The same regulation quoted above continues: *Separate contributions of less than \$250 are not subject to the requirements of section 170(f)(8), regardless of whether the sum of the contributions made by a taxpayer to a donee organization during a taxable year equals \$250 or more.*

There are many sections of the Internal Revenue Code that call for very specific requirements in order to receive a deduction. In this case it was not adequate to prove that the taxpayers made the contributions in question. Each of the contributions of \$250 or more (had they each been \$240 the rule would not have applied) that lacked the contemporaneous written acknowledgement had to, by definition, be disallowed. Be sure when you make charitable donations that you immediately get a conforming receipt, **and** keep the receipt for at least three years after the filing of the return on which you claim the deduction.

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The Hidden Tax

Presidential campaigns consistently confuse politics with policies, and the promises they make with practical realities. It does not matter which of the two men wins the presidency this year, as neither candidate will get congressional support for all his promises. There are too many conservative Democrats for Obama to accomplish any far left programs, and too few Republicans for McCain to win any far right legislation. One area that will be a major battleground will be taxes, and here it is important for everyone to better understand the issue of what I am calling “the hidden tax.”

The campaigns are talking about tax rates and segments of taxpayers. There is a lot of noise about how the middle class is treated. Obama has promised to roll back the tax breaks on the rich. At the same time there is a great deal of talk (and spin) when they talk about spending and saving. I will focus here on a very specific, but important issue that affects all of us. It affects individuals and businesses, as well as federal, state, and local governments. It is the hidden tax of healthcare.

As I talked with people who have healthcare provided by their employers I found that most have no idea what it costs to provide the medical plans they have. With the debate raging over universal healthcare, or accessible healthcare, or affordable healthcare, it became clear that this was a topic that needed more discussion. When I tried to determine how much some of our major corporations paid for healthcare, I ran into a wall. Not only is the cost of healthcare not public, even the number of domestic employees is not public information.

So I tried to look at things from more of a small business perspective as there are millions of small businesses, and some of the debate about taxes is based on ways to help small business. As I researched this I found the results rather stunning, even though I had some idea of what I'd find.

First let me address an issue that gets lost in all the partisan discussions. Taxes are paid on profits by businesses and income by individuals. Healthcare costs are a cost to businesses, even in times when they are losing money, and a burden to individuals, especially middle income people. We pay healthcare costs indirectly as well as directly. We pay for the uninsured when they go to emergency rooms (often funded by local governments) instead of to a personal physician. We pay for employer-paid healthcare in the cost of products we buy from those companies. We pay out of our incomes for premiums, co-pays, and related costs. Call these costs what you will, but they are essentially a hidden tax.

Let me share with you some of the results of the research we did to estimate the magnitude of this cost. We first looked at the national data reported by the Kaiser Family Foundation. The report provided some staggering numbers. For HMO plans the average total premium in 2007 reached \$11,879 for a family, and \$4,299 for a single employee. The employers paid \$8,568 and \$3,588 respectively (source: Kaiser/HRET Survey of Employer Sponsored Health Benefits, 2007). For PPO plans the premiums were higher by 5-10%.

Now for the hidden tax. The median personal income (not family) for 2006 was \$26,352 (source: U.S Census Bureau). For our purposes, let's assume that this median income person is an employed single mother and that she has health insurance for which her employer pays the average family premium shown above – \$8,568. That's 32.5% added on top of her pay, a hidden tax that is in addition to the employer's 7.65% Social Security and Medicare taxes.

Businesses operate to make a profit, not simply to put people to work. They have all kinds of costs which at the end of the day they must on to consumers if they are to end up with a profit.

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Income tax is only one such cost.

The debate about corporate taxes is interesting. “Two out of every three United States corporations paid no federal income taxes from 1998 through 2005, according to a report released Tuesday by the [Government Accountability Office](#), the investigative arm of Congress,” (source: Lynnley Browning, *The New York Times* 8/12/2008). Some of the companies paid no federal income taxes because they had no profits. Taxes are on profits, but for those with sig-

nificant health care premiums, those costs are paid whether there is a profit or not.

There has been a great deal of talk about jobs going overseas for various reasons. We all realize that labor costs are significantly lower in many parts of the world. But when I saw the costs, and realized that US companies often must pay more in health insurance premiums than the total cost for an average employee in the developing world, it appeared to me that this cost is far more burdensome than the tax rate on high profits. What do you think?

Analyze This!

The gyrations in the global equity markets continue to make the news. But what is the news, and how is it relevant to each of us?

First, I thought that Nicholas Kristof wrote this true statement recently, “That's the way journalism works — we cover planes that crash, not those that land (*The New York Times*, August 24, 2008).” Even the regular ups and downs of the market are considered news. In the sense that the high and low temperature is also news, I agree; however, what does it mean to our lives over the long term? Can we analyze the best course of action?

Stocks and bonds move, in part, based on what analysts have to say about the profit projections for an industry or company, concerns about the direction of interest rates and inflation, and the emotions of the public (consumer confidence). Classical valuation of individual companies analyzes *all future cash flows* (profits, etc.) to determine a reasonable value for today and the next couple of years.

The problem is the belief – and I mean belief, not knowledge – of what to expect. A short 12 ½

years ago, in March, 1996, the search engine company Lycos, Inc. went public with a market value of \$300 million (source: nytimes.com). In May, 2000, I assume after analyzing the costs and benefits, a subsidiary of the giant Spanish telecommunications company, Telefonica purchased Lycos for \$5.4 billion. Accepting that the reality did not track its analysis, it sold the company in 2004 for \$95.4 million, a \$5.3 billion loss (source:Wikipedia.org).

I share this information because I believe that advice about “what should we do?” requires that we focus on our individual long-term needs and not the current ebbs and flows of the markets. Regardless of whether the consensus is positive or negative, each of us has our own situation with which to deal. Life events, be they health changes, marital developments, job changes, etc. will affect investment plans more than the markets. Why? Because we can know more about what is going on in our lives and how it affects our wealth, than any analysis of a given investment decision.

We all hear people say things like “my adviser says I should....” But this becomes like a blind

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