NORTHWEST ASSET MANAGEMENT

Chuck Jones & Associates, Inc.

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"Certainty? In this world nothing is certain but death and taxes." Benjamin Franklin

Don't Pay Tax Twice

Reinvestment can be a crucial component of the wealth accumulation process, as the reinvested amount compounds and grows over time. Yet if you are reinvesting dividends and capital gains ("distributions") in funds you hold in your taxable account, it can be important to ensure that you're not paying more tax than necessary. You pay tax on those distributions in the year in which you receive them. But if you don't keep good records, you could end up paying tax on those distributions again when you sell. For example, say you bought 1,000 shares of a fund for your taxable account at the end of 2011; you paid $18 per share for a total of $18,000. In 2012, with the share price still at $18, the fund made a dividend distribution of $0.50 per share, or $500 for your 1,000 shares. You'd owe tax on the $500 on your 2012 taxes, whether you reinvested the money or took the cash in hand. (The taxes would be deferred if you held the fund in a tax-sheltered account). If you reinvested the money in the fund, you'd now own 1,027.78 shares: your original 1,000 plus the nearly 28 additional shares that you were able to buy (at $18) with the $500 dividend distribution. If you sell now, with the fund's net asset value at $20, you'd think you'd owe taxes on your $2,555.56 profit ($20,555.56 minus $18,000), right? Wrong. You would only owe taxes on $2,055.56 ($20,555.56 minus $18,000 minus $500). Otherwise, the $500 dividends would be taxed twice.

Investments are subject to risk of principal and risk of loss. Dividends are not guaranteed. Retirement accounts are tax-deferred vehicles designed for retirement savings. Any withdrawals of earnings will be subject to ordinary income tax and, if taken prior to age 59½, may be subject to a 10% federal tax penalty. This should not be considered tax or financial planning advice. Please consult a tax and/or financial professional for advice specific to your individual circumstances.

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Get Your Estate Plan in Gear

Estate planning laws have undergone swift changes over the past several years and may change again in the years ahead. If you're creating or updating an estate plan, it's essential that you seek the advice of an attorney who's well versed in this area. Before you hire an estate-planning attorney to draft or update your estate plan, it's important to understand your role in the estate-planning process.

Find a qualified attorney: Because your estate plan will likely need to be updated as the years go by and your personal circumstances change, it makes sense to find an attorney who practices in the community where you live. This can help you meet with him/her on an ongoing basis.

Take stock of your assets: Before you meet with your attorney, spend some time enumerating your assets and their value: your investment accounts, life insurance, personal assets such as your home, and your share of any businesses that you own. Also gather current information about any debts outstanding. Your estate-planning attorney is likely to provide you with a worksheet to document your assets and liabilities, but it's helpful to collect this information in advance.

Identify key individuals: Another important aspect of estate planning is identifying the individuals you trust to ensure that your wishes are carried out once you're gone.

Executor: A person who gathers all of your assets and makes sure that they are distributed as spelled out in your will.

Durable (Financial) Power of Attorney: A person you entrust with making financial decisions on your behalf if you should become disabled and unable to manage your own financial affairs.

Power of Attorney for Health Care: A person you entrust with making health-care decisions on your behalf if you are disabled and unable to make them on your own.

Guardian: A person who would look after your children if you and your spouse were to die when your children are minors.

Know the key documents you need: When you meet with your estate-planning attorney, he or she will make recommendations about your estate plan. At a minimum, you should ask your attorney to draft the following documents.

Last Will and Testament: A legal document that tells everyone, including your heirs, how you would like your assets distributed after you're gone.

Living Will: A document that tells your loved ones and your health-care providers how you would like to be cared for if you should become terminally ill; usually includes details about your views toward life-support equipment.

Durable (Financial) Power of Attorney: A document that gives an individual the power to make financial decisions and execute financial transactions on your behalf if you are unable to do so.

Medical Power of Attorney: A document that gives an individual the power to make health-care decisions on your behalf if you are unable to do so.

Manage your documents: Once your estate-planning documents are drafted, destroy any older versions of them. Notify your executor of the whereabouts of your estate-planning documents, and provide copies of the relevant documents to your executor, powers of attorney, and the guardian for your children.

Note: If you are one of our clients, put digital copies in your "Vault" and give access to the Vault to your executor. The Vault is part of our service to our clients.

Plan to keep your plan current: Last but not least, plan to keep your estate plan current. One of the biggest estate-planning pitfalls is drafting an estate plan but not keeping it up to date. Changes may include change in marital status, assets, financial status, death or ill health of your beneficiaries, executor, power of attorneys, or guardian.

How to Choose a Tax Preparer

The tax code is quite a complex beast. Trying to stay on top of ongoing changes to the tax code is extremely challenging and not too appealing for most. As a result, many people opt to visit a professional tax preparer when tax season is upon them. For those who are choosing this avenue for the first time, here are some tips that should help with the search for a qualified professional.

Chain Service or Licensed Tax Professional: If your return is simple and you place a high value on speed and affordability, then a chain (H&R Block, Jackson Hewitt, etc.) may fit the bill. However, be aware that because of potential turnover you may not be able to meet with the same individual every year. Also, if your return is somewhat straightforward, there are a number of very good, and easy to use, software applications that are available to help with your taxes. This can be a much more affordable option.

If your return is a little more complex, and you value more personalized service, you may want to set up a meeting with a licensed tax professional. These include certified public accountants (CPAs) or enrolled agents. A CPA is required to pass an examination and keep abreast of tax planning through ongoing education. An enrolled agent is a federally- licensed tax practitioner who has passed a comprehensive examination or has worked at the Internal Revenue Service for five years in a position that regularly interpreted and applied the tax code and its regulations. It is important to note that not all CPAs are tax specialists (enrolled agents are).

Ask for a Recommendation: If you have a friend or a relative in a similar tax situation you find yourself in, ask if they can recommend a tax preparer. Ask why they chose this individual (or chain) and why they continue to use their services. Can you contact this person after the return has been filed? Have they been responsive?

Questions to Ask: Whether you get a recommendation or decide to conduct the search on your own, there are a few important questions that should be asked. For example, you will want to know how long they have been preparing taxes, if they participate in ongoing education, if they are experienced with your type of return, and whether they will represent you if you are audited. You may also want to ask about professional licenses and designations, whether they can provide references, whether they have ever been disciplined by any government authority, and, of course, about the cost.

Hopefully you will get a sense as to whether or not you can work with this individual after speaking with them. If you don't get a good feel, it may be in your best interest to move on. Having a level of comfort is critical.

Other Items to Consider: The IRS recommends that you avoid preparers who claim they can obtain larger refunds than other preparers. They go on to say that if your returns are prepared correctly, every preparer should derive substantially similar numbers. The IRS also warns that one should beware of a preparer who guarantees results or who bases fees on a percentage of the amount of the refund. Additionally, a practitioner may not charge a contingent fee (percentage of your refund) for preparing an original tax return.

When your tax preparer finishes with your taxes, he or she should sign the return and include their appropriate identifying number. Make sure you are provided with a copy for your records. Review your return very carefully before you sign it. Be sure to ask any questions that you may have—now is not the time to be shy. And, while it may be very obvious, it is still worth mentioning that you should never, under any circumstances, sign a blank return.

Last, but not least: Always remember that you are legally responsible for everything that is on your tax return, even if it was prepared by someone else.

CHUCK'S TIPS AND FACTS:

FACTS:

Auto insurance costs: Did you know that not all cars are charged the same insurance? For example Mercedes-Benz makes 11 of the 20 most costly 2013 vehicles to insure – average annual premium over $3,300. The least expensive car to insure is the Ford Edge SE with an average annual premium of $1,128. Check it out yourself at www.Insure.com an online tool to help find the average rate on over 750 models, click on car insurance comparison.

Cheaper to rent a car for long trips: With auto rental companies becoming more competitive, you can find a car for as low as $19/day with unlimited mileage surely less expensive than driving your own vehicle.

Does your auto insurance cover your pet if the pet is in the car with you? One of my clients uses Nationwide for her auto insurance and it covers her pet if it is injured in the car.

TIPS:

How long after retirement should you plan for? Most Americans estimate that they plan for 17 years while most financial planners recommend preparing for 30 years according to Amerprise.

Check your credit score: Check out www.**credit**karma.com/**credit-report**-card. I got my credit number in less than 2 minutes and have not had any emails from them. Another way is that once per year you can get your report from all 3 credit reporting companies at no cost from www.AnualCreditReport.com .

Is your car more likely to be stolen: Prior to buying a car check out the list at Bankrate.com which quotes the National Highway Traffic Safety Administration. A couple of the most likely are: Lexus SC, Dodge Charger, Pontiac G6, Chevy Impala, Chrysler 300, Infiniti FX35, Kia Rio, Dodge Avenger, etc.

Get helpful technology tips: www.komando.com is a great place for tips on the use of your computer, iPad and the new smart phones. She also has a radio show each Sat., check your local listings for the location on your dial.

Computers and phones designed specifically for seniors: Yes there are both and several sources, just Google **computers and phones designed specifically for seniors** and you will be amazed at what is available.

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