

## How to Become Rich at an Early Age

By: Amy Rossignol

As a child growing up, it is difficult to understand the need to save for retirement. With the money we earn from our summer jobs as kids, we are more interested in buying a new bike, car, clothing or favorite CD. The last thing on our minds is putting part of it away into some sort of savings account. Unfortunately, we far too often realize as we get older that we do not have enough money set aside for retirement and that we should have started saving at an earlier age. Therefore, it is important to discuss with your child early on the need to start saving so that they can retire at a reasonable age and not be a financial burden to others.

One way to start your child on the right track is to take some of their earnings from their summer employment and have them make a contribution to a ROTH IRA. For 2007, they are allowed to make a contribution in the amount of their earnings or \$4,000, whichever is lower. ROTH IRA contributions must be made by the due date of the tax return, April 15, 2008 (including extensions).

Although convincing your child put away some of their hard earned money may be difficult to do, try sharing with them the lessons of compound interest through this eye opening short story from a Yahoo Finance article dated February 20, 2007 that was written by Barbara Miotek Whelehan.

### "Early Shirley and Late Nate"

Shirley's not particularly organized or ambitious, but she had the advantage of attending a seminar while still at college where she learned about the magic of compound interest.

So at age 25, after graduating from college and landing a job, she opened a ROTH IRA and began contributing \$4,000 a year to it. She chose a moderately aggressive balanced fund within her IRA that invested mostly in stocks, with limited exposure to bonds. It produced annual returns of 9 percent on average.

Shirley did this even though she owed money on college loans. She continued to invest until she was 35, at which time the account was valued at \$60,772. Then she stopped and invested nothing more, but continued to earn 9 percent annually in the account. At age 35, she met Nate.

*continued on page 2*

### Maine Residents Property Tax and Rent Refund Program

Over 200,000 Maine households now qualify for property tax and rent refunds. Applications must be filed by June 2, 2008.

You may qualify for a refund if:

- You do not have a spouse or dependent(s) and your 2006 household income was \$80,750 or less; or
- You have a spouse or dependent(s) and your 2006 household income was \$105,750 or less

#### AND

- Your 2006 property tax was more than 4% of your 2006 household income; or
- The rent you paid in 2006 was more than 20% of your 2006 household income

**NOTE:** *Low-income Seniors do not need to meet these requirements*

DECEMBER 2007

# Quill

NEWSLETTER



### TABLE OF CONTENTS

How to Become Rich at an Early Age.....	1
Maine Residents Property Tax and Rent Refund Program....	1
Properly Estimating your Tax Liability.....	2
It's That Time of Year - Year End Tax Planning.....	2
Announcements.....	4

Editor: Amy Rossignol

Runyon  
Kersteen  
Ouellette

Certified Public Accountants  
and Business Consultants

## How to Become Rich at an Early Age, continued



Nate was quite ambitious and owned all the latest technological gadgets. But he had put off investing because, well, he was about driving cool cars and impressing women and he just didn't want to think about retirement. Retirement was for old people. He finally started investing \$4,000 annually at age 35 because Shirley put him up to it.

Nate invested this amount for 20 straight years in a mix of funds that also returned 9 percent annually on average. When he turned 55, his account was worth \$204,640 - less than Shirley's account value, which by then had grown to \$304,591. Nate's total outlay of \$80,000 was twice that of Shirley's.

Nevertheless, Nate continued to invest \$4,000 a year for another 10 years until he turned 65, when his account value reached \$545,230. However, Shirley's account at age 65 was worth more than \$806,303.

From this example, you can see that starting early gives you the edge needed to retire comfortably at possibly an early age.

## Properly Estimating your Tax Liability

By: Amy Rossignol

We all know that gathering the information necessary to file our tax returns can be difficult. Occasionally, there are unforeseen circumstances which prevent us from filing on time. In such cases, we either ask our tax preparer to file an extension on our behalf (Form 4868), or we attempt to complete and file the extension ourselves. Whichever the case, it is important to note that we are responsible as individuals to properly estimate our tax liability.

The IRS is increasing its reviews of extensions to assess their reasonableness. If the IRS determines that your request is not reasonable, it can deny your extension, leaving you with severe penalties and interest for not properly filing your tax return on time.

To minimize the chance of being penalized, you should provide your tax preparer with as much pertinent information as you can reasonably locate. If estimates need to be made for missing information, ensure that the estimates are in line with your prior year's numbers.



## It's That Time of Year - Year End Tax Planning

With the weather turning cooler and the onset of the holiday season, there is much to distract us. While those distractions can be wonderful, don't let them keep you from the business of minimizing what you pay to Uncle Sam.

December marks the last month of the year - and your last chance to take steps to minimize your tax liability for 2007. Use the time wisely. This article is intended to remind you of some of the things you can still do in 2007 to reduce your tax bill.

### Income

Clearly, one possible way to reduce your income tax burden is to reduce your taxable income. It therefore follows that decreasing your gross income will normally help you to do this.

Delayed billing at year-end is a classic way for cash basis taxpayers to reduce taxable income. People who run businesses that extend credit can delay sending the last billing of 2007 until it's virtually certain your customers will not be able to get the payment to you by December 31.

If you use this technique, remember that your customers may need tax deductions of their own. Try and time your billings to allow them to write a last minute check and put it in the mail to you on December 31. That way, both you and your customers are happy. One thing you should not do is instruct a customer to pay in 2008 when they otherwise would have paid in 2007. In certain circumstances, if you have the ability to receive payment but do not, the income may be includable in 2007.

Selling assets at a loss may be another possible way to reduce your taxable income. Many taxpayers have realized some healthy gains from stock market and mutual fund activities this year. Offsetting these realized gains by selling your declining stocks is a great way to reduce taxable income - especially assets with a permanent loss. Remember, the declining asset you sell need not be a stock if you are trying to cover a gain on a stock sale. Any type of capital loss can offset your current year capital gains.

Beware of wash sale rules. If you sell a stock and then repurchase it within 30 days, the tax code will treat the sale as if it did not occur, negating the loss.

Be extremely careful when purchasing mutual funds in the latter part of the year. Mutual funds typically make distributions of capital gains earned throughout the year in December. Since the assets created by the capital gains are held in the mutual fund until year end, they increase the net assets of the fund. When you pay the net asset value at the time of purchase, you are essentially buying and paying tax on someone else's capital gain income. Look very carefully at any mutual funds you are thinking of buying to avoid this costly error.

If you are negotiating the sale of an asset, and the sale must occur in 2007, consider selling the property on an installment basis. By taking only a portion of the sales price in 2007, and the remainder in 2008, you can defer payment of the tax for a full year. Please note, however, that any ordinary income recognized from the sale is taxed in the current year.

Before we leave the subject of income, remember: there are times that you might actually want to accelerate income. Say you took a huge business

loss in 2007 but, as a result, expect 2008 to be a much better year. If your 2008 plans include taking significant gains on asset sales, or receiving money from a significant sale, you may want to 'zero out' the business loss by accelerating what would otherwise be 2008 income. It is possible that, by doing so, you will keep yourself in lower tax brackets in both years, which will reduce your tax bill.

### Expenses

If you calculate income on a cash basis and operate as either a sole proprietor or as a pass-through entity (partnership, S Corporation, trust), consider paying all your bills before December 31, 2007. Cash basis taxpayers take a deduction only when the expense is paid. You can pay by check, or if necessary, credit card.

One very important point to bear in mind is that you don't want to incur an expense just to get a deduction. At the very best, an expenditure of \$100 will only save you \$35 in federal tax. You will still be out-of-pocket by \$65. Incur only those expenses that you would have paid under normal circumstances.

Don't forget the option to expense certain fixed assets that you buy and place in service before the end of 2007. Again, the purchased equipment should be something you planned to acquire anyway and buying it in 2007 is simply accelerating a needed purchase. Cash basis taxpayers must either pay the full purchase price in 2007 or borrow money from an entity that is not the seller. If you let the seller finance your purchase, you will only be able to expense or depreciate the equipment as you make payments on the loan. The maximum amount you can expense in 2007 is \$112,000.

Is now the time to set up a retirement plan for your employees? If you establish certain retirement plans in 2007, any employer contributions will be due just before you file your tax return. Think about that! You get the deduction in 2007, but the cash goes out in 2008.

From a personal standpoint, don't forget itemized deductions. Now is the time to estimate your total itemized deductions. If it does not appear that your deductions will exceed your standard deduction (amount the government assumes you will spend and which is allowed as a deduction from adjusted gross income), consider holding off on incurring any more itemized deductions to the extent you can. Paying in 2008 may allow you to "bunch" deductions. This is a technique where you combine two years' deductions into one year, making them eligible for use as itemized deductions in one of those years. The savings can be substantial. Be careful, if Alternative Minimum Tax applies, this may be counterproductive for certain deductions.

### Conclusion

This has been a short, fast trip down 'Tax Planning Lane'. It's not an exhaustive list of your options because a proper evaluation of your options requires that all facts about your tax situation are known. Give us a call, or drop by, and let's discuss your particular circumstances. We may be able to help you minimize your tax bite for 2007.





[www.rko-cpas.com](http://www.rko-cpas.com)

SOUTH PORTLAND  
20 Long Creek Drive  
South Portland, Maine 04106  
(800) 486-1784  
(207) 773-2986

WATERVILLE  
30 Elm Street  
Waterville, Maine 04901  
(800) 639-2160  
(207) 877-9397

The word "Quill" is written in a blue, serif font. To its right is a stylized blue quill pen graphic.

## Announcements



Beth Mullin, a Supervisor at Runyon Kersteen Ouellette, married Ryan Cote Sunday, September 2nd in a private backyard ceremony surrounded by family and friends. They honeymooned in Bar Harbor. Congratulations Beth and Ryan!



During this Holiday Season, we THANK YOU for letting us work with you! Our best wishes to you for a Healthy and Prosperous New Year. We would like to take this opportunity to thank you for your continued patronage and trust in Runyon Kersteen Ouellette. We continue to work every day to earn that trust. We also thank you for the many clients you have referred to us. Because of you we continue to grow. If you know of others that can benefit from our services, we welcome your referrals.

RKO recently received an "unqualified opinion" on our system of quality control for the accounting and auditing practice in of the firm. The AICPA's quality control monitoring program requires a "peer review" every three years. The Quality Review Team inspects randomly selected files and workpapers to ensure compliance with professional standards. The successful completion of the review marks our commitment to provide a top quality product and level of service to all clients.

Member  
of:

