



Your Bottom Line

PUBLISHED QUARTERLY BY: MACKENSEN & COMPANY, INC. FEE-ONLY FINANCIAL PLANNERS
 Navigating a clear course toward your financial security.



Warren Mackensen

Alternative Minimum Tax

Congress has done it again! Our elected officials have changed the tax code after the 2007 IRS tax forms went to press in early November. In order to keep some 21 million taxpayers nationwide off the alternative minimum tax (AMT) rolls, Congress has increased the AMT exemptions. That was nice, but the timing of the law change means that the IRS is now scurrying to reprogram and test its computers.

The impact of this late change is that taxpayers who at first appear to be subject to AMT should wait to file their 2007 tax returns until the revised forms are published by the IRS in late February 2008. There are some additional insidious ripple effects on other tax forms, so do not be surprised if your return is filed later than usual this year. Of course, the April 15th filing deadline was not extended. ❖

Charitable Contributions . .

To help you substantiate your charitable contributions under the new rules, we are asking clients to use a new form that we have developed for this purpose. ❖

Capital Gains & Dividends

Starting in 2008, and through 2010, people in the 10% or 15% federal income tax bracket do not have to pay tax on long-term capital gains and qualified dividends. To be within the 10% tax bracket in 2008, your taxable income must be below \$8,025 if single, and \$16,050 if married filing jointly. The 15% tax brackets in 2008 top out at \$32,550 if single, and \$65,100 if married filing jointly.

Strategy: If you are within these brackets, now is a good time to sell profitable long-term securities. If you are above the 10% or 15% brackets, consider gifting shares to your children or heirs who are not dependents, rather than giving them cash. The gift value is the same to them after they sell, and you will not have to pay the long-term capital gains taxes. The gift tax exclusion in 2008 remains \$12,000 per donor, per donee. Spouses may consent to joint gifts, so you could give \$24,000 to each individual.

Trap: Giving securities to children who are still dependents does not achieve complete tax freedom because dependent children under age 19, and full-time students under age 24, are subject to the Kiddie Tax. With the Kiddie Tax, the children's income taxes are calculated based on the parent's rate for investment income over \$1,800, so there is only partial relief. ❖

Brokerage Tax Statements . .

A number of brokerage firms have obtained an IRS extension that permits them to delay mailing your Form 1099s until February 28. The delayed mailing of your Form 1099 is aimed at reducing the number of revised tax forms resulting from income reclassifications by security issuers. Similar to the impact of the AMT problem, delayed receipt of your Form 1099s may result in not filing your tax return until late March or early April. ❖

2008 Retirement Contributions

Retirement Plan Contribution Limit	Under Age 50	Age 50 or Over
IRA & Roth IRA	\$5,000	\$6,000
401(k), 403(b), 457	\$15,500	\$20,500
Roth 401(k) & Roth 403(b)	\$15,500	\$20,500
SIMPLE IRA	\$10,500	\$13,000
SIMPLE 401(k)	\$10,500	\$13,000
SEP, Profit Sharing, Keogh	\$45,000	\$46,000



David A. Batchelder

401(k) Roth Conversions

For the first time, you may now roll over (convert) a distribution from an employer-sponsored plan, e.g., a 401(k), directly to a Roth IRA. For 2008 and 2009, you are generally eligible for this type of rollover if your adjusted gross income (AGI) does not exceed \$100,000. You will owe tax on the amount you are rolling over.

Why pay taxes now when you could pay them later if you rolled over your 401(k) to a traditional IRA? The advisability of rolling a 401(k) to a Roth IRA (and paying taxes) depends on your age, your tax bracket, your overall net worth, and the amount of available cash that you have to pay the taxes. Each person's situation differs. You have to be sure the benefit of tax-free withdrawals from a Roth IRA in retirement outweighs the cost of paying taxes now on the 401(k) distribution.

Long-range planning note: Beginning in 2010, the \$100,000 modified adjusted gross income limit applicable to Roth IRA conversions will be eliminated so that you may convert a traditional IRA or a 401(k) account to a Roth. In addition, if you make a conversion in 2010, you may spread the tax liability over two years (2011 and 2012). Since this is long-range planning, skeptics have noted that Congress could renege on this provision in the future if there is a change of political power in Washington.

Even if the new Roth conversion rules do not go into effect in 2010, following the strategy of putting the maximum in non-deductible traditional IRA contributions between now and then does not have much downside. You will at least get the advantage of tax-deferred earnings with a nondeductible traditional IRA. The opportunity to possibly convert the traditional account into a tax-free Roth IRA down the road is just icing on the cake. ❖

Hampton Trust Funds

Warren will be running for a three-year term as Trustee of the Trust Funds in March. During 2007, Warren was instrumental in getting the trustees to establish a balanced investment policy that provided the Town of Hampton with an increase in income of over \$140,000 from the \$16 million Real Estate Trust Fund. The income from the Real Estate Trust Fund is used to reduce the tax rate in Hampton.

He also established a web site for the trust funds (www.hamptontrustfunds.org) so that the citizens of Hampton could see what is going on with their trust funds and capital reserve funds. The trustee meeting dates are posted, along with past meeting minutes and financial figures.

Warren would appreciate your vote in March so that he may continue to serve Hampton as your trustee. ❖

Roth Eligibility Increased ..

For 2008, single taxpayers are eligible to contribute up to \$5,000 to a Roth IRA as long as their adjusted gross income is less than \$101,000. From \$101,000 to \$116,000 of AGI, the eligibility is gradually phased out. At \$116,000, Roth contributions are no longer allowed, although traditional IRAs are still encouraged.

Married taxpayers may each make a \$5,000 contribution to Roth IRAs as long as their AGI is below \$159,000. Above that, the allowable contribution phases out, and at \$169,000, Roth contributions are no longer allowed. Traditional IRAs are still encouraged. ❖

Your Bucket List

In the recently-released comedy called "The Bucket List," one of the characters comprises a bucket list of all the things he wants to do before he dies. Comedy aside, the lesson is that *everyone* should have a bucket list, no matter what age. Half of the fun is creating the list and planning your dreams. Once you have your list, get past all the things that have been holding you back from completing them. ❖

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MACKENSEN & COMPANY, INC.
FEE-ONLY FINANCIAL PLANNERS

6 Merrill Drive
Hampton, NH 03842-1970
603-926-1775
800-927-7365
fax: 603-926-1249

web address: www.mackensen.com
email: info@mackensen.com