

May 2003 - **Nevada Benefits** Newsletter
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“When a democracy is in trouble, the remedy is more democracy.” ~ Andrew Jackson ~

*Special Note - As of the day we are publishing this issue of the newsletter, our troops in Iraq have control of most of the country, but are still in harm's way. As you know, there is a great divide in public opinion as to whether or not our military should be in Iraq, and accordingly, we will not make any political statements in that regard. However, we do want to ask everyone to join in our hopes and prayers that the hostilities and casualties will end as quickly as possible.

A Brief Trip Down Tax Memory Lane!

Since we just stumbled through tax season, we thought you might find it interesting to know some facts about the history of the income tax system. We realize this information won't help you save any taxes now, but it will let you see how inconsistent and stupid our system really is. (In our opinion, anyway.)

And, since those who don't understand the past are doomed to repeat it...it's really good to know what the past has been all about regarding the Tax Man!

OK. In 1798, Congress levied the first direct tax on American property, including lands, houses and slaves. Temporary income taxes were also imposed on citizens by both sides of the Civil War in order to raise wartime funds, and in 1862 the Office of the Commissioner of Internal Revenue was created to collect wartime income tax funds. (That was a bad move, don't you think, setting up an office to take our money away from us?)

The first peacetime income tax was imposed in 1894, a 2-percent tax on earnings above \$4,000, which at that time only affected the very richest 2-percent of Americans.

Income taxes became a permanent feature of American life in 1913, with ratification of the 16th Amendment. Taxes were expanded during World War I with revenue acts, which created federal estate

taxes as well as greater taxes on earnings by individuals and businesses.

The current Income Tax was put into effect 78 years ago...on April 9, 1925 to be exact.

The lowest rate was 1-1/2% of the first \$4,000 of taxable income. The tax on the next \$4,000 was 3%, and anything over \$8,000 of taxable income was taxed at a whopping 5%, with a surcharge added to incomes over \$10,000. (Even then, they had to complicate things, right from the start! Why couldn't they have just started a *simple system*??)

Are you ready for this? The next year, the government ran a huge surplus from the taxes collected versus expenditures incurred by the Congress. So, the IRS gave everyone a REBATE! They actually got 25% of their prior year's taxes paid back to them! (Hey, that would be cool now, wouldn't it?)

As we said, the original “modern” income tax was ratified in 1913, and it took several years to actually get it implemented. But once they did, it didn't take them long to raise the rates and add more and more complications to the system!

The “soak the rich” mentality existed back then, and of course, is even worse today.

Social Security taxes were added as a special new tax in 1937. The maximum tax

anyone could pay was capped at \$60 per year. By 1950, the cap was raised all the way up to \$90 per year! (The current cap on Social Security taxes you can pay is \$5,263.80, in case you were wondering...with NO CAP on the amount of Medicare taxes you pay! Medicare taxes are part of the FICA taxes they “take” from your paycheck.)

The withholding law was put into effect in 1943 as a “temporary measure,” because due to the war, many people didn’t have the money to pay up in March. (March 15th used to be Tax Day.) Rates climbed dramatically in the war years. The top bracket was capped at 91% of income! (That’s not a typo. They took 91% of the highest earners’ incomes to finance the war!)

The rates dropped a little, and the Korean War, and the rates stayed up. From Korea through 1981, the top rate was 70% of certain kinds of income. (Does anyone remember that? We do.)

In 1982, the top bracket dropped all the way down to 28%, which is now back up to over 40% for top earners.

The tax code was a mere 409,000 words back in 1955. Now, 38 years later, the tax code fills 2,840 pages, and contains about 2,800,000 words. (In comparison, the Bible has 1,340 pages, and about 800,000 words!)

So what’s in store for the future, now that we’ve taken a brief gander at the past? Well, number one, they are simply NOT going to try to overhaul the tax system. The special interest and government jobs that need to be protected by the people who make money off this insane system are just too powerful.)

You can definitely expect higher taxes to pay for the spending that Congress and the President have already committed to, just for the war, if for nothing else.

(And you know there are plenty of “other else’s” like Medicaid, Medicare,

Social Security, prescription drugs for seniors, etc., etc. In case you didn’t know, the Congress has already “cut” the proposed “tax cut” before the “cut” even got voted on! Tax increases are here to stay it seems.)

No matter what happens in Washington, now that you’ve settled up for last year...don’t procrastinate away 2003! Now is the time to take action. Don’t wait until the end of the year to do tax planning. Let’s get together and review your situation NOW! Let’s make sure you are not in that group whose taxes go up simply because you choose NOT to take advantage of EVERY legal opportunity the tax code gives you!

In fact, with proper tax planning, our clients will save thousands of dollars in taxes that they would otherwise pay every single year. In fact, if you only save \$2,000 a year in taxes that you would have otherwise paid for the next 20 years, and you only earn 5% on that money, at the end of 20 years you would have an extra \$66,132 you wouldn’t otherwise have!

Now think about that. That’s money that you could have in your pocket, just by doing some tax planning. But...we can’t help you if you don’t come in and let us review your situation and update your plan.

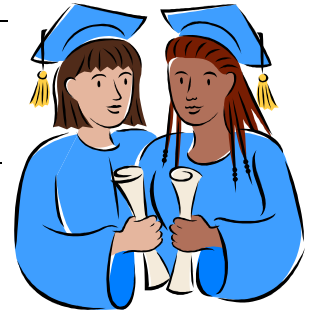
If you haven’t started **your** financial planning for this year, DO IT NOW! Call us up for your annual review, RIGHT NOW, while this is fresh on your mind. We’ll take care of the rest! (Don’t forget, we know where to find you!)

REMEMBER – WE WANT YOU TO CONTACT US WITH YOUR “HERE’S WHAT WE’RE THINKING ABOUT DOING QUESTIONS”, NOT YOUR “GUESS WHAT WE JUST DID!” COMMENTS!(Call 258-1995)

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Financial Tip Of The Month...

Housing Is Still A Good Deal!



Although real estate prices in some areas have jumped more than 20 percent in the last three years, according to Freddie Mac, housing is still affordable for most families. In late 2002, the typical house was valued at 3.65 times household income, according to Boston's AEW Capital Management. That's up from 3.24 times income three years earlier. But home prices relative to income aren't much higher than they were in the 1980s.

Some homebuyers have been scared off by talk of "bubbles", high prices that could quickly go down. Economists at Wellesley College in Massachusetts say people are afraid of bubbles after what happened to the stock market, but in general, there's no bubble.

AEW, a real estate investment advisor, says that based on average home prices and interest rates of late 2002, a typical 30-year mortgage would cost about 22 percent of median household income, unchanged from three years earlier. In fact, by this measure, housing is cheaper now than it was at any time in the 1980s.

Don't wait for housing prices to go down, because in most areas it won't happen. Remember the bonuses of home ownership: You have the mortgage tax deduction, and you have forced savings as you pay down the loan balance. And remember that you have an annual benefit of 7 or 8 percent of your home's value from what economists call imputed rent. You live there without giving checks to the landlord.

The Wall Street Journal's Jonathan Clements adds one caution, however. If you plan to stay in a house for less than five years, he recommends renting. With the expense of first buying and later selling a house, it's difficult to make money if you own a home for less than five years.

Please keep in mind that this tip is designed to be of help for you, but is not to be relied upon as advice. It is merely a reminder that there are many choices you have available to you, and that planning is the only way to find the right answers for your situation! As with any financial issues, make sure you get the right information before making a decision! If you have any questions, we'll be glad to help you!

SUCCESS STORY OF THE MONTH!

(Note: The details of these stories have been changed to maintain confidentiality, and some compilations are used to accomplish anonymity.)

“Midlife crisis is that moment when you realize your children and your clothes are about the same age.” Bill Tammeus

An Empty Nest Brings Trouble!

Vicky and Dave had been married for over 25 years. They met back in college, and fell in love immediately. They got married right after graduation. Dave got a teaching job, and Vicky worked outside the home until they had their first of three children, three girls. (The youngest of the girls, Robin, is now 18, and a freshman at a state college.) Vicky and Dave agreed she should quit the outside job, and become a stay-at-home mom until the kids were much older.

Throughout their marriage, Dave was a workaholic. He went to school early to tutor problem kids, stayed late for swimming practice (as the varsity coach) and brought all kinds of paperwork home every night...and on weekends. He's just that kind of guy. He also thought that he had a duty to make more money than a teacher's typical salary, so he took on extra work like coaching.

At the time, he didn't know it, but his absences really took a toll on their marriage. Vicky was very angry. She wasn't the kind of woman to express these kinds of private feelings. She resented Dave being gone so much, and spending time with everyone else's kids except theirs. She remembered how he was away at swim meets when their daughter went to her first prom.

Dave never knew how upset Vicky was. He did know that their once thriving romance was not anywhere near what it was in the old days...but he attributed that to what he perceived was the normal loss of intimacy that comes with the passing of years. He was wrong. Vicky's anger and resentment was much worse than he ever suspected.

Her feelings ended up being the catalyst for her to truly lose the love she once had for Dave. The true demise of the marriage was hidden by the kids still being at home. Then, as soon as Robin went to college last year, Vicky did what she had been wanting to do for years: she left Dave and moved out.

Here's what happened. Only a week after Robin left for school, Dave came home after dinner (which he missed nine out of ten times) and found a note from Vicky being the only thing of hers left in the house. She had packed her personal belongings and clothes, and moved to a divorced friend's house.

To say Dave was stunned is the understatement of the century. He had no clue that the situation was this bad. None. The one thing he thought he could always count on was Vicky. He now saw he was so far removed, he let her get away without knowing it.

Now, Dave was facing a world unknown to him. As strange as this sounds, when Dave came in to see us, referred by his CPA, he was clueless about the financial side of this pending divorce.

In many families, political correctness aside, when these middle age divorces happen, it's usually the woman who has not been doing the money thing...and needs a quick education and some hand holding to handle things on her own. In this case, Dave was the one who needed his hand held.

Vicky had paid all the bills, handled his 403(b) (retirement plan contributions) investments, college funding, etc. Dave figured since Vicky took that end of things, he could leave it to her. And, since he wasn't inclined to be a money person, that was just fine with him.

We helped Dave sort out the financial picture in conjunction with his lawyer, during the divorce process. It was sad to see him so devastated, but we were more than glad to help him get through this horrible time.

Once the divorce was over, we helped Dave set up a plan of action for his financial situation, teaching him, as well as advising him. He turned out to be a quick learner, and has settled into taking care of his finances, as well as the financial complications of alimony and college funding for Robin, and so forth. Last month, he had another blow hit him like a tire iron across the head. Vicky called him and told him she was getting married. That was tough enough. But, she was getting married to a guy they both knew from church, who had also just been divorced.

When Dave told us about Vicky's upcoming wedding, he was very sad, but said he was so appreciative that we were helping him with his money, because he felt that at least one part of his life was solid and secure.

We replied that money isn't everything, and that our primary concern was his attitude and outlook for his new beginning. He responded, "I understand. And I appreciate your concern. But it's nice to know I can count on you guys to be there for me when I need you. Even though money isn't more important than me messing up my marriage, I still need security and don't want to worry about myself or Robin." He added, "I guess I won't have to be worrying about Vicky anymore."

While this story really doesn't have a warm and fuzzy ending for Dave (although we hear that Vicky is totally happy, and we say good for her!), it's another example of how no matter what happens in your life...you can't escape the financial side of things. We know there are far more important things than money. Just the same, it's a part of your life that needs to be under control.

It's also an example of why we love what we do. Helping people is a great way to make a living!

If you are interested in learning more about how you can save money in taxes, or other expenses you might be overpaying for...or want to sit down with us and have your plan reviewed or updated, give us a call! We're here to help you, and to help you keep on track with your planning. Don't be a stranger. Call us, and we'll assist you in having the best shot possible of reaching your goals, and having peace of mind! Don't wait until it's too late! Call Phil at 258-1995.

Did You Know...

(Our monthly feature of tidbits of news and info to make your life easier, your money work harder and so you're healthy all the time!)

Did you know...

1. May is National Stroke Awareness Month. Prevent stroke, the leading cause of disability! In the U.S., stroke is the leading cause of disability, and the third leading cause of death. In addition to quitting smoking and keeping blood sugar in normal range, we should: * Keep blood pressure down. People who have high blood pressure in midlife have a higher risk. Take medication, change your diet, and exercise. * Control cholesterol. Follow a diet that emphasizes fruits, vegetables, and grains. * Don't stress. Chronic stress raises blood pressure and increases stroke risk. * Have a glass of wine or take an aspirin if your doctor approves.

2. Alcohol, drugs: Girls have ill effects faster than boys. Girls and young women are more easily addicted to drugs and alcohol than boys. According to the National Center on Addiction and Substance Abuse at Columbia University, girls get hooked faster on smaller amounts of alcohol and drugs, and suffer the effects more severely. Researchers studied girls between age 8 and 22. They found that about 45 percent

of high school girls drink alcohol, compared with 49 percent of boys. More girls than boys abuse prescription drugs. While boys experiment with cigarettes, alcohol, and drugs for thrills or social status, girls are motivated by a desire to reduce stress or alleviate depression, the study found. Girls were more likely to use cigarettes, alcohol, and drugs after moving to a new community, advancing to high school or to college.

3. On the road in the kid taxi. Today's parents are spending more time shuttling their kids to activities than their parents did; 20 percent more, according to the Surface Transportation Policy Project, Washington, D.C. The percentage holds true for mothers whether they are employed or not. It's not just mothers, federal data show that all American drivers are averaging 11 percent more time behind the wheel than drivers did in 1995. While parents' ambitions for their kids are partly to blame for the overload, combining of schools into giant middle schools and high schools on the fringes of suburban areas force more driving just to maintain a normal life for the kids. Some parents seem to enjoy driving their kids to high-quality activities.

Health Tip Of The Month...

(These tips are not for everybody and should not be taken as specific recommendations. Before you take any action regarding yours or anyone's health, we strongly suggest you consult a qualified physician!)



“The Jury’s In...Caffeine Can Be Good For Your Health!”

Coffee has been a good news, bad news product for hundreds of years.

There's no question about the fact that too much caffeine can make some people jittery and sleepless, but Bennet Weinberg and Bonnie Bealer have written a book that details many of the good things caffeine can do for us. Here's what they say in *The Caffeine Advantage*.

- It's a pain killer. A study by the Diamond Headache Clinic in Chicago shows caffeine was as effective a pain reliever as ibuprofen and worked faster.
- It's a cancer fighter. A study published in the Journal of the National Cancer Institute shows that drinking several cups of coffee every day is linked to a lower incidence of breast cancer.
- It's a stimulant. Caffeine has a positive effect on memory, reasoning, and reaction time, according to the National Addiction Centre in London.

So...maybe that cup of coffee or tea could be just what the doctor ordered!

Client Of The Month

Congratulations to **Goodwill of Southern Nevada** our client of the month. They will be receiving a free pizza party from us to thank them for being a loyal customer.

Goodwill of Southern Nevada, Inc. is a not-for-profit organization whose mission is to provide training, employment and job placement services for people with disabilities and other special needs to maximize the quality of life of each individual served.

To contact Goodwill or find the nearest location near you log onto www.sngoodwill.org or call 597-1107.

If you would like any additional free reports, or would like some of your friends, coworkers, relatives, business acquaintances, etc. to receive a FREE subscription to this newsletter, please fill out the info on the reply form, and we'll add them to the mailing list. We'll also send them a note with their first issue telling them that you had suggested they receive the newsletter, and to contact us if they would like to stop at any time. If you enjoy this newsletter, why not share it for FREE with people you know, with no hassle for you!

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Client Quiz!**Here's The April 2003 Quiz Question And Answer!**

Q. Under the new rules put into place in 1997, when you sell your house, anyone can now pay no tax on \$250,000 of profit if you file as a single, or \$500,000 if you file jointly? True False

A. False. You may be able to pay no tax on these amounts of home sale profits...but there are many restrictions and rules about the circumstances under which one may be able to get this huge tax break. **DO NOT THHINK YOU QUALIFY FOR THIS TAX BREAK IF YOU'RE PLANNING ON SELLING YOUR HOME UNTIL AFTER YOU HAVE A PROFESSIONAL REVIEW YOUR SPECIFIC SITUATION TO SEE IF YOU QUALIFY FOR THE EXCLUSION OF HOME SALE PROFIT! THIS IS COMPLICATED, AND IS NOT A TIME FOR AMATEUR NIGHT!**

Now, Here's the May 2003 Quiz Question!

Q. How long should individual taxpayers keep their income tax related records?

1. Forever. 2. Six years after the return is filed or due. 3. Three years after the return is filed or due.

All correct answers win two free show tickets to Jay White's Neil Diamond Show

Email answers to **will@nevadabenefits.com** or fax to **877-0956**. Good Luck!